UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED: APRIL 30, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ------------------- to -------------------

COMMISSION FILE NUMBER: 1-6089

H&R BLOCK, INC.
(Exact name of registrant as specified in its charter)

MISSOURI	44-0607856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4400 MAIN STREET, KANSAS CITY, MISSOURI 64111
(Address of principal executive offices, including zip code)

(816) 753-6900
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, without par value	New York Stock Exchange
	Pacific Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, WITHOUT PAR VALUE
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price at which the stock was sold on June 1, 2001, was $5,519,309,259.

Number of shares of registrant's Common Stock, without par value, outstanding on June 1, 2001: 92,064,143.

DOCUMENTS INCORPORATED BY REFERENCE

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended April 30, 2001, are incorporated herein by reference in response to Part I, Item 1, and Part II, Items 5 through Item 8, and certain specified portions of the registrant's definitive proxy statement filed within 120 days after April 30, 2001, are incorporated herein by reference in response to Part III, Items 10 through 13, inclusive.

PART I

ITEM 1. BUSINESS.

GENERAL DEVELOPMENT OF BUSINESS

H&R Block, Inc. (the "Company") is a diversified company with subsidiaries providing a wide range of financial products and services. In fiscal year 2001, the Company's tax subsidiaries and their franchisees served 19.2 million taxpayers - more than any tax or accounting firm - through its more than 10,400 offices located in the United States, Canada, Australia and the United Kingdom. Another 2.3 million clients utilized the award-winning software program, Kiplinger TaxCut(R) from H&R Block, and the online tax preparation service. Investment services and securities products are offered through H&R Block Financial Advisors, Inc. ("HRBFA"), member NYSE, SIPC. The Company is not a registered broker-dealer. H&R Block Mortgage Corporation ("H&R Block Mortgage") and Option One Mortgage Corporation ("Option One") offer a full range of home mortgage products. RSM McGladrey, Inc. ("RSM") is a national accounting, tax and consulting firm with more than 100 offices nationwide, as well as an affiliation with 550 offices in 75 countries as the U.S. member of RSM International.

The Company is a corporation that was organized in 1955 under the laws of the State of Missouri. It is the parent corporation in a two-tier holding company structure following a 1993 corporate restructuring. The second-tier holding company is H&R Block Group, Inc., a Delaware corporation and the direct or indirect owner of the operating subsidiaries that provide tax and financial services to the general public principally in the United States, but also in Canada, Australia and the United Kingdom. Approximately 58% of the total revenues of the Company in fiscal year 2001 were generated by subsidiaries involved in tax return preparation, electronic filing of income tax returns and other tax-related services. The Company's subsidiaries also offer investment services through broker-dealers, originate, service and sell mortgages, offer personal productivity software, participate in refund anticipation loan products offered by a third-party lending institution, and offer accounting, tax and consulting services to business clients.

Developments during fiscal year 2001 within U.S. tax operations, International tax operations, Mortgage operations, Investment services and Business services are described in the section below entitled "Description of Business."

Henry W. Bloch retired as Chairman of the Board of Directors of the Company and as a director on September 13, 2000. Pursuant to a succession plan for senior management approved by the Board of Directors on June 21, 2000, Frank L. Salizzoni succeeded Henry

Bloch as Chairman of the Board of Directors in September 2000 and retired as Chief Executive Officer on December 31, 2000. Mr. Salizzoni continues in the role of Chairman of the Board of Directors. Pursuant to the succession plan, Mark A. Ernst, formerly President and Chief Operating Officer, assumed the role of President and Chief Executive Officer of the Company as of January 1, 2001.

During the fiscal year ended April 30, 2001, the Company was not involved in any bankruptcy, receivership or similar proceedings or any material reclassifications, mergers or consolidations, and the Company did not acquire or dispose of any material amount of assets during such year.

The information contained in this Form 10-K and the exhibits hereto may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which the Company operates, and management's assumptions and beliefs relating thereto. Words such as "will," "plan," "expect," "remain," "intend," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and their impact on any proposed or possible transactions and the lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the inability of the Company's subsidiaries to successfully expand the financial planning and investment services business, the national accounting and consulting practice, the retail mortgage business, and the core tax business; the inability to implement the Company's strategies with respect to such expansion and other strategies; changes in management and management strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; litigation involving the Company; the inability of the Company to purchase shares of its Common Stock pursuant to its share repurchase program; the Company's inability to successfully integrate the operations of acquired firms and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission ("SEC"). Readers should take these factors and risks into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The information required by Item 101(b) of Regulation S-K relating to financial information about industry segments is contained in the Notes to Consolidated Financial Statements in the Company's annual report to security holders for the fiscal year ended April 30, 2001, and is hereby incorporated by reference.

NUMBER OF EMPLOYEES

The Company itself has no employees. Its direct and indirect wholly owned subsidiaries have approximately 9,600 regular full-time employees. The highest number of persons employed by the subsidiaries during the fiscal year ended April 30, 2001, including seasonal employees, was approximately 99,400.

DESCRIPTION OF BUSINESS

U.S. TAX OPERATIONS

Generally. This operating segment provides to the general public in the United States income tax return preparation services, electronic filing services and other services related to income tax return preparation, participates in refund anticipation loan products offered by a third-party lending institution, offers a wide range of online tax services including online tax preparation and electronic filing through the web site at www.hrblock.com, and sells to the general public tax return preparation software and other personal productivity computer software.

Tax Services. The income tax return preparation and related services business is the original core business of the Company. These services are provided to the public in the United States through a system of offices operated by tax subsidiaries of H&R Block Services, Inc. (collectively referred to as "Tax Services") or by others to whom Tax Services has granted franchises. Tax Services and its franchisees (collectively referred to herein as "H&R Block") provide to the general public H&R Block income tax return preparation services, electronic filing services, the Peace of Mind program (described below) and other services relating to income tax return preparation. For U.S. returns, H&R Block offers a refund anticipation loan service, the Refund Rewards program (described below) and an electronic refund advance loan service in conjunction with its electronic filing service. H&R Block also markets its knowledge of how to prepare income tax returns through its income tax training schools.

Taxpayers Served. H&R Block served approximately 16,883,000 taxpayers in the United States during fiscal year 2001, compared to 16,933,000 taxpayers served in fiscal year 2000 and 16,542,000 taxpayers served in fiscal 1999. "Taxpayers served" includes taxpayers for whom H&R Block prepared income tax returns (both online and in H&R Block offices) as well as taxpayers for whom H&R Block provided only electronic filing services.

Tax Return Preparation. During the 2001 income tax filing season (January 1 through April 30), H&R Block offices in the United States prepared approximately

16,442,000 individual income tax returns, compared to the preparation of 16,276,000 returns in fiscal year 2000, and 15,761,000 returns in fiscal year 1999. These returns constituted 13.9% of an IRS estimate of total individual income tax returns filed as of April 30, 2001, compared to 14% in fiscal 2000. The following table shows the approximate number of income tax returns prepared at H&R Block offices during the last five tax filing seasons:

Tax Season Ended April 30
(in thousands)

	1997	1998	1999	2000	2001
Returns Prepared	14,302	14,838	15,761	16,276	16,442

During the tax season, most H&R Block offices are open from 9:00 a.m. to 9:00 p.m. weekdays and from 9:00 a.m. to 5:00 p.m. Saturdays and Sundays. Office hours are often extended during peak periods. Most tax preparation business is transacted on a cash basis. The procedures of Tax Services have been developed so that a tax return is prepared on a computer in the presence of the client, in most instances in less than one hour, based on information furnished by the client. Pursuant to the one-stop service offered at company-owned offices, the return is reviewed for accuracy and presented to the client for signature and filing during his or her initial visit to the office.

Electronic Filing. Electronic filing reduces the amount of time required for a taxpayer to receive a Federal tax refund and provides assurance to the client that the return, as filed with the Internal Revenue Service ("IRS"), is mathematically accurate. If the client desires, he or she may have his or her refund deposited by the Treasury Department directly into his or her account at a financial institution designated by the client.

An eligible electronic filing client may also apply for a refund anticipation loan ("RAL") at an H&R Block office. Under the 2001 RAL program, Tax Services' electronic filing clients who met certain eligibility criteria were offered the opportunity to apply for loans from Household Bank ("Household") in amounts based upon the clients' anticipated Federal income tax refunds. Income tax return information is simultaneously transmitted by H&R Block to the IRS and the lending bank. Within a few days after the date of filing, a check in the amount of the loan, less the bank's transaction fee and H&R Block's tax return preparation fee, is received by the RAL client. The IRS then directly deposits the participating client's actual Federal income tax refund into a designated account at the bank in order for the loan to be repaid. Tax Services received a $9.00 fee per RAL from Household for sublicense of patent rights, the license of trademarks and certain expenses incurred in connection with the making of RALs.

In fiscal year 2001, H&R Block was again named a partner in the IRS's "Debt Indicator" pilot program. The Debt Indicator program is designed to increase the number of electronically filed returns and aid the IRS, H&R Block and other IRS partners in screening for electronic filing fraud. Under the program, the IRS advises its partners if a

requested refund will be reduced by an offset, such as back taxes, delinquent student loans or overpayment from federal agencies. Household uses the Debt Indicator in determining whether to make a refund anticipation loan. In exchange for access to the Debt Indicator, tax preparers agree to help in strengthening anti-fraud efforts and increasing the number of electronically filed returns.

H&R Block also offers an electronic refund service pursuant to which an eligible electronic filing service client's income tax refund is directly deposited into an account at a bank (Tax Services used Household in 2001) within approximately three weeks after the tax return is electronically filed. A check is thereafter issued to the taxpayer in the amount of the refund, less the bank's transaction fee and H&R Block's tax return preparation fee.

H&R Block filed approximately 13,327,000 U.S. tax returns electronically in fiscal 2001 compared to 12,592,000 in fiscal 2000 and 11,139,000 in fiscal 1999. Approximately 4,496,000 refund anticipation loans were processed in fiscal 2001 by H&R Block, compared to 4,814,000 in fiscal 2000 and 2,811,000 in fiscal 1999. Approximately 1,935,000 electronic refunds were processed in fiscal 2001 by H&R Block, compared to 1,499,000 in fiscal 2000 and 1,916,000 in fiscal 1999.

In fiscal 2001, H&R Block offered a service to transmit state income tax returns electronically to state tax authorities in 41 states and the District of Columbia (compared to 39 states and the District of Columbia in fiscal 2000 and 38 states and the District of Columbia in fiscal 1999) and plans to continue to expand this program as more states make this filing alternative available to their taxpayers.

New Logo. The Company's subsidiaries introduced their first logo redesign in more than two decades in August 2000 to symbolize the transformation of the Company's business from tax preparer to financial partner. The new logo is a large bright green block accompanied by the H&R Block name to the right. It began appearing on signage at H&R Block tax offices and in promotional materials immediately after its introduction.

Refund Rewards Program. H&R Block expanded its Refund Rewards(TM) program for 2001 by making it available to all tax clients and by making it easier for clients to take advantage of the program. Under the expanded program, all clients who had their tax returns prepared at a participating H&R Block office were eligible to receive at the end of the tax preparation process a coupon booklet containing offers from the program's participating merchants.

Express IRA. In fiscal 2001, H&R Block introduced the Express IRA to tax clients in 14 states. With the Express IRA product, tax preparation clients in those states can open an IRA with HRBFA by using all or part of their tax refund, or by writing a personal check for the amount deposited into the IRA. The Express IRA is invested in an FDIC-Insured money market account through Reserve Management Corporation at an insured depository institution paying competitive money market interest rates. Clients funded approximately 25,000 Express IRAs in fiscal year 2001.

Employer Solutions. In fiscal year 2001, H&R Block launched H&R Block Employer Solutions. Under this program, employers throughout the United States are able to add H&R Block income tax return preparation to its employee benefits packages and H&R Block was able to attract new, targeted clients.

Million Dollar Giveaway. The Company unveiled the H&R Block Million Dollar Giveaway promotion in 2001. Anyone who used the Company's tax services (either in an office, through the Kiplinger TaxCut(R) software, or online at the Company's web site) or the Company's mortgage or financial services on or prior to April 15, 2001 was automatically entered into a drawing to win one million dollars. Tax Services also sponsored four episodes of ABC's "Who Wants to be a Millionaire" game show during the week of February 18, 2001 and paid the taxes on each contestant's winnings during that week.

H&R Block Guarantee and "Peace of Mind" Program. If an H&R Block preparer makes an error in the preparation of a client's tax return that results in the assessment of any interest or penalties on additional taxes due, while H&R Block does not assume the liability for the additional taxes (except under its "Peace of Mind" program described below), it guarantees payment of the interest and penalties.

Under the "Peace of Mind" program, in addition to H&R Block's standard guarantee to pay penalties and interest attributable to errors made by an H&R Block preparer, H&R Block agrees to pay additional taxes owed by the client (for which liability would not ordinarily accrue) resulting from such errors. The Peace of Mind program has a per client cumulative limit of $4,000 ($5,000 at H&R Block Premium offices) in additional taxes assessed with respect to the Federal, state and local tax returns prepared by H&R Block for the taxable year covered by the program. There is an additional charge for the "Peace of Mind" program, except at H&R Block Premium offices.

Income Tax Courses. H&R Block offers income tax return preparation courses to the public that teach taxpayers how to prepare their own income tax returns, as well as to provide H&R Block with a source of trained income tax return preparers. During the 2001 fiscal year, 165,600 students enrolled in H&R Block's basic and advanced income tax courses in the United States, compared to 175,200 students during fiscal year 2000 and 159,216 students during fiscal year 1999.

Owned and Franchised Offices. Most H&R Block offices are similar in appearance and usually contain the same type of furniture and equipment, in accordance with the specifications of Tax Services. Freestanding offices are generally located in business and shopping centers of large metropolitan areas and in the central business areas of smaller communities. All offices are open during the tax season. During the balance of the year, only a limited number of offices are open, but through telephone listings, H&R Block personnel are available to provide service to clients throughout the entire year.

In addition to its regular offices, H&R Block offers tax return preparation services at H&R Block Premium offices in the United States. Appealing to taxpayers with more complex returns, H&R Block Premium stresses the convenience of appointments, year-round tax service from the same preparer and private office interviews. The number of H&R Block Premium offices decreased in fiscal year 2001 to 484, compared to 555 in fiscal year 2000 and 617 in fiscal year 1999. In fiscal 2001, the number of H&R Block Premium clients decreased to approximately 559,000, compared to approximately 619,000 in fiscal 2000 and approximately 719,000 in fiscal year 1999.

In fiscal year 2001, H&R Block also operated 746 offices in department stores in the United States, including offices in Sears stores operated as "H&R Block at Sears." During the 2001 tax season, the Sears' facilities constituted approximately 8.1% percent of the tax office locations of H&R Block. Tax Services is a party to a license agreement with Sears relating to Tax Service's operation in Sears' locations throughout the United States. Such license agreement expires on December 31, 2004, subject to termination rights of both parties for a limited period of time after each tax season. Tax Services believes its relations with Sears to be excellent and that both parties to the license arrangement view the operations thereunder to date as satisfactory.

On April 16, 2001, there were 9,072 H&R Block offices in operation in the United States compared to 9,210 offices in operation on April 17, 2000 and 8,923 offices in operation on April 15, 1999. Of the 9,072 offices, 5,060 were owned and operated by Tax Services (compared to 5,162 in fiscal year 2000 and 4,880 in fiscal year 1999) and 4,012 were owned and operated by independent franchisees (compared to 4,048 in fiscal 2000 and 4,043 in fiscal 1999). Of such franchised offices in fiscal 2001, 2,717 were operated by franchisees of Tax Services (described below), 811 were operated by "major" franchisees (described below) and 484 were operated by franchisees of major franchisees.

The Company and its subsidiaries have principally granted two types of franchises- franchises (formerly called "satellite" franchises) and major franchises. "Major" franchisees entered into agreements with the Company (primarily in the Company's early years) covering larger cities and counties and providing for the payment of franchise royalties based upon a percentage of gross revenues of their offices. Under the agreements, the Company granted to each franchisee the right to the use of the name "H&R Block" and provided a Policy and Procedure Manual and other supervisory services. Tax Services offers to sell furniture, signs, advertising materials, office equipment and supplies to major franchisees. Each major franchisee selects and trains the employees for its office or offices. Since March 1993, HRB Royalty, Inc., an indirect subsidiary of the Company, has been the franchisor under the major franchise agreements.

Franchises have been granted by Tax Services in smaller localities. A franchisee receives from Tax Services signs, designated equipment, specialized forms, local advertising, initial training, and supervisory services and, consequently, pays Tax Services a higher percentage of his or her gross tax return preparation and related service revenues as a franchise royalty than do major franchisees. Many of the franchises of Tax Services are located in cities with populations of 15,000 or less. Some major franchisees also grant franchises to sub-franchisees in their respective areas.

It has always been the policy of Tax Services to grant tax return preparation franchises to qualified persons without an initial franchise fee; however, the policy of Tax Services is to require a deposit to secure compliance with franchise contracts.

From time to time, Tax Services has acquired the operations of existing franchisees and other tax return preparation businesses, and it will continue to do so if future conditions warrant such acquisitions and satisfactory terms can be negotiated. In fiscal year 2001, Tax Services acquired 11 franchise offices and six offices of other tax businesses.

E-Commerce Initiatives. The Company's subsidiaries offer a wide range of online services, including online tax preparation, electronic filing of tax returns, mortgage products and brokerage services, through their web site at www.hrblock.com. The web site is organized into three main areas: Taxes, Mortgages and Investments.

The Taxes area offers a comprehensive range of tax tools, from tax advice to complete professional tax return preparation and electronic filing. In fiscal 2001, three new online tax products and services were introduced: Professional Review, Professional Tax Service and Ask a Tax Advisor. With Professional Review, taxpayers who prepare their income tax returns using the Online Tax Program can have their self-prepared return reviewed and signed by an H&R Block preparer and covered by the standard H&R Block Guarantee. The $29.95 fee charged for this service in 2001 included the review of both the federal and state resident tax return. Taxpayers choosing Professional Tax Service can provide their tax information online, and have an H&R Block tax preparer prepare and deliver a completed tax return to the client. The $99.95 fee charged for this service in 2001 included the preparation and electronic filing of the taxpayer's federal income tax return and the preparation of one state return. The new Ask a Tax Advisor service allows a taxpayer to obtain customized answers to individual tax questions from an H&R Block tax advisor. Ask a Tax Advisor is available via e-mail, live chat, or telephone. A charge of $19.95 per question was assessed to the taxpayer in fiscal year 2001.

In addition to these new services, the web site at www.hrblock.com continues to provide users with the ability to prepare their income tax returns online using the Online Tax Program, receive tax tips and tax-related news, subscribe to a tax newsletter and use withholding and refund calculators for tax planning. The Online Tax Program, designed for the do-it-yourself taxpayer, enables such taxpayers with Internet access to input their income tax return information securely online, and have the program perform all the calculations and complete the appropriate IRS forms. The $19.95 fee charged for this service in 2001 included the online preparation and electronic filing of the federal return and the preparation of one resident state return.

In fiscal year 2001, Block Financial Corporation ("BFC"), an indirect subsidiary of the Company, entered into an agreement with Yahoo! Inc. to provide tax-related content and online tax services to Yahoo! consumers on the Yahoo! Tax Center. In fiscal year 2000, BFC teamed with Microsoft Corporation ("Microsoft"), pursuant to a three-year agreement, to provide exclusive web-and desktop-based tax preparation products for Microsoft consumers who use MSN(TM) MoneyCentral(TM) personal finance service.

The Taxes area also offers a program called Electronic Refund Advance ("ERA"), a loan product that allows a user to have a refund anticipation loan in an amount up to $5,000 deposited directly into his or her bank account usually within two days after the IRS accepts the taxpayer's electronically filed return. ERA is a loan and the lending institution, Household, charged a $29.95 fee for each transaction during the 2001 tax

season. Household paid BFC a license fee for each approved ERA of $7.21 for the sublicense of patent rights, the license of trademarks and certain expenses incurred in connection with the making of ERAs.

The Mortgages area enables users to apply for mortgages online and track the status of their applications through the web site. H&R Block Mortgage has teamed with E-Loan, Inc. ("E-Loan"), a leading online lender, to provide a competitive mortgage marketplace where users can shop with more than 70 loan providers for low rates on mortgages. The Mortgages area also includes interactive calculators to estimate the tax implications and benefits of home ownership, e-mail notification when the desired loan rate becomes available, a tool that recommends the best loan types for a borrower's situation, customized rate quotes and a mortgage comparison feature.

The Investments area provides online investment services through HRBFA, a registered securities broker-dealer. Users may open a variety of accounts, obtain research, create financial plans, execute trades in a variety of securities including stocks, fixed-income products (including bonds, certificates of deposit, and unit investment trusts), and a variety of mutual funds, as well as view the status of their account on-line. See "Integrated Online Services" under "Investment Services," below.

BFC has arranged with Answer Financial, a leading Internet insurance marketplace, to offer through the Company's web site free, multiple insurance quotes for term-life, health, homeowners and automobile insurance products from leading insurers.

Software Products. BFC develops and markets the income tax preparation software Kiplinger TaxCut(R) from H&R Block and markets Home and Business Attorney, Kiplinger's WILLPower(SM) and Names & Dates(R) software products.

Refund Anticipation Loan Participations. BFC is a party to a July 1996 agreement with Household to participate in RALs provided by Household to H&R Block tax clients. See "Electronic Filing" under "Tax Services" above for a discussion of RALs. In the 10-year agreement, BFC agreed to purchase an initial 40% participation interest in such RALs, which interest would be increased to nearly 50% in specified circumstances. Beginning in fiscal 1999, the participation interest was increased to 49.9% in company-owned RALs, and BFC participated in 25% of major franchise RALs. BFC's purchases of the participation interests are financed through short-term borrowings. BFC bears all of the risks associated with its interests in the RALs. BFC's total RAL revenue in fiscal year 2001 was approximately $133.7 million (compared to revenue of $89.8 million in fiscal 2000 and $90.2 million in fiscal 1999), generating approximately $68.0 million in pretax profits (compared to $45.8 million in pretax profits in fiscal year 2000 and $19.1 million in pretax profits in fiscal year 1999).

Seasonality of Business. Since most of the clients of Tax Services file their tax returns during the period from January through April of each year, substantially all of Tax Services' revenues from income tax return preparation, related services and franchise royalties are received during this period. As a result, Tax Services operates at a loss through the first eight or nine months of its fiscal year. Historically, such losses primarily reflect payroll of year-round personnel, training of income tax preparers, rental and

furnishing of tax offices, and other costs and expenses relating to preparation for the following tax season. For the first time in the Company's history, U.S. tax operations reported in fiscal year 2001 a profit for the third quarter. An early start to the tax season, disciplined expense control and strong improvements in e-commerce business all contributed to this third quarter 2001 profit.

BFC's income tax return preparation software, online tax service and RAL participation businesses are also seasonal, with the substantial portion of the revenues from these businesses generated during the tax season.

Service Marks and Trademarks. HRB Royalty, Inc., a Delaware corporation, claims ownership of the following service marks and trademark registered on the principal register of the United States Patent and Trademark Office:

Alguien En Quien Confiar
Block Mortgage
Executive (when used in connection with the preparation of income tax returns for others)
H&R Block in Two Distinct Designs

H&R Block Premium
Rapid Refund H&R Block and Design
Someone You Can Count On
The Income Tax People

In addition, HRB Royalty, Inc., claims ownership of the following unregistered service marks and trademarks:

America's Largest Tax Service
BlockBonus
Double Check Challenge
H&R Block in a Third Distinct Design (4)
H&R Block Just Plain Smart and Design (4)
H&R Block Rapid Refund and Design
Just Plain Smart (4)
Nation's Largest Tax Service
Refund Rewards
Smart Solutions
We know. Do you?

Tax Services has a license to use the trade names, service marks and trademarks of HRB Royalty, Inc., in the conduct of the business of Tax Services.

BFC claims ownership of the following services marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Audit Buster	Financial Finder
B and Design (2)	Names and Dates
Block Financial (2)	Small Business Attorney

Block Financial and B Design	Tax Cut
Conductor	Tax Cut and Design
Conductor and Baton Design	Web
Conductor and Hand-Held Baton Design	Webbank
Conductor Card Review	Webcard
Fast Lane	Webpay

BFC also claims ownership of the following unregistered service marks and trademarks:

CONDUCTOR.COM
DittoCard
Download Depot
Home Legal Advisor
Netguard
Small Business Attorney
Solve Your Everyday Business Problems
The Fastest and Easiest Way To Do Your Taxes
WebAccount
WebBroker
WebChecking
Will Power
Willpower
Your Complete Personal Legal Resource

BFC also claims ownership of the patent "SYSTEM FOR ON-LINE FINANCIAL SERVICES USING DISTRIBUTED OBJECTS" registered as Patent No. 5,706,442 on January 6, 1998, on the principal register of the United States Patent and Trademark Office.

In connection with BFC's sale of its credit card portfolio in January 1999, it granted to Providian National Bank non-exclusive, non-transferable and royalty-free licenses to use the mark "Conductor and Baton Design" for up to two years, the patent "SYSTEM FOR ON-LINE FINANCIAL SERVICES USING DISTRIBUTED OBJECTS" for a period of ten years, and the mark "CONDUCTOR.COM" perpetually.

Competitive Conditions. The tax return preparation and electronic filing businesses are highly competitive. There are a substantial number of tax return preparation firms and accounting firms that offer tax return preparation services. Many tax return preparation firms and many firms not otherwise in the tax return preparation business are involved in providing electronic filing and refund anticipation loan services to the public. Commercial tax return preparers and electronic filers are highly competitive with regard to price, service and reputation for quality. Tax Services believes that, in terms of the number of offices and tax returns prepared, it is the largest tax return preparation firm in the United States. Tax Services also believes that, in terms of the number of offices and tax returns electronically filed in fiscal year 2001, it is the largest provider of electronic filing services in the United States.

The software and e-commerce businesses are highly competitive and consist of a large number of companies. In the software industry, Intuit, Inc. and Microsoft are dominant suppliers of personal financial software. Intuit, Inc. is also H&R Block's primary competitor in the online tax preparation market. BFC expects increased competition in this area as more competitors enter the online market or existing providers of online tax preparation services consolidate.

Government Regulation. Several states have enacted, or have considered, legislation regulating commercial tax return preparers. Primary efforts toward the regulation of such preparers have historically been made at the Federal level. Federal legislation requires income tax return preparers to, among other things, set forth their signatures and identification numbers on all tax returns prepared by them, and retain for three years all tax returns prepared. Federal laws also subject income tax return preparers to accuracy-related penalties in connection with the preparation of income tax returns. Preparers may be enjoined from further acting as income tax return preparers if the preparers continuously and repeatedly engage in specified misconduct. With certain exceptions, the Internal Revenue Code also prohibits the use or disclosure by income tax return preparers of certain income tax return information without the prior written consent of the taxpayer. In addition, the Gramm-Leach-Bliley Act and Federal Trade Commission regulations adopted thereunder require tax preparers to adopt and disclose consumer privacy policies, and provide consumers a reasonable opportunity to "opt out" of having personal information disclosed to unaffiliated third parties for marketing purposes.

The Company believes that the Federal legislation regulating commercial tax return preparers has not had and will not have a material adverse effect on the operations of H&R Block. In addition, no present state statutes of this nature have had a material adverse effect on the business of H&R Block. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations.

The Federal government regulates the electronic filing of income tax returns in part by specifying certain criteria for individuals and businesses to participate in the government's electronic filing program for U.S. individual income tax returns. Individuals and businesses must, upon application, be accepted into the electronic filing program. Once accepted, electronic filers must comply with all publications and notices of the IRS applicable to electronic filing, provide certain information to the taxpayer, comply with advertising standards for electronic filers, and be subjected to possible monitoring by the IRS, penalties for disclosure or use of income tax return preparation and other preparer penalties, and suspension from the electronic filing program.

The Federal statutes and regulations also regulate an electronic filer's involvement in refund anticipation loans. Electronic filers must clearly explain that the refund anticipation loan is a loan and not a substitute for or a quicker way of receiving an income tax refund. The Federal laws place restrictions on the fees that an electronic filer may charge in connection with refund anticipation loans.

States that have adopted electronic filing programs for state income tax returns have also enacted laws that regulate electronic filers. In addition, some states and localities have enacted laws and adopted regulations that regulate refund anticipation loan

facilitators and/or the advertisement and offering of electronic filing and refund anticipation loans.

The Company believes that the Federal, state and local legislation regulating electronic filing and the facilitation of refund anticipation loans has not, and will not in the future have a material adverse effect on the operations of H&R Block. However, the Company cannot predict what the effect may be of the enactment of new statutes or the adoption of new regulations pertaining to electronic filing and/or refund anticipation loans.

The repayment of RALs generally depends on IRS direct deposit procedures. The IRS may from time to time change its direct deposit procedures or may determine not to make direct deposits of all or portions of a borrower's Federal income tax refund. The failure of the IRS to make direct deposits of refunds may impair the lender's ability to collect a RAL and result in a loss to BFC in connection with its purchases of interests in RALs and a loss to Tax Services for tax preparation fees not collected. However, the Company believes that Federal statutes and regulations regulating electronic filing and RALs have not had and will not have a material adverse effect on the operations of BFC or Tax Services. However, the Company cannot predict what the effect may be of the enactment of new Federal or state statutes or the adoption of new regulations.

As noted above under "Owned and Franchised Offices," many of the income tax return preparation offices operating in the United States under the name "H&R Block" are operated by franchisees. Certain aspects of the franchisor/franchisee relationship have been the subject of regulation by the Federal Trade Commission and by various states. The extent of such regulation varies, but relates primarily to disclosures to be made in connection with the grant of franchises and limitations on termination by the franchisor under the franchise agreement. To date, no such regulation has materially affected the business of the Company's subsidiaries. However, the Company cannot predict what the effect may be of the enactment of new statutes or adoption of new regulations pertaining to franchising.

From time to time, and especially in election years, the subjects of tax reform, tax simplification, the restructuring of the tax system, a flat tax, a consumption tax, a value-added tax or a national sales tax surface. While each flat tax proposal and most other tax simplification proposals have fallen short of adoption, such issues have received serious attention in recent years. Historically, changes in tax laws have increased H&R Block's business. The immediate result of tax law changes has been an increase in complexity. The transition from the current system to a new, untested system is likely to take a number of years and, under most serious tax reform proposals, Americans will still need to file Federal and state tax returns. The Company believes that clients will still come to H&R Block for convenience, accuracy and answers to tax questions. However, if enacted, the effect of tax reform or simplification legislation on the business of the Company's subsidiaries over time is uncertain, and such legislation could have a material adverse effect on the Company's business, financial position and results of operations.

INTERNATIONAL TAX OPERATIONS

Generally. This operating segment provides the preparation of tax returns, electronic filing and related services to the general public principally in Canada, Australia and the United Kingdom. Tax preparation of U.S. tax returns and related services are offered by franchisees in nine countries. The electronic filing of U.S. income tax returns is offered at franchised offices located in Europe, and the electronic filing of Australian, Canadian and United Kingdom income tax returns is offered at H&R Block offices in Australia, Canada and the United Kingdom, respectively.

The returns prepared at 1,378 company-owned and franchised offices in countries outside of the United States constituted 12.2% of the total returns prepared by H&R Block in the last fiscal year (compared to 12.3% in fiscal year 2000 and 12.8% in fiscal year 1999).

Canadian Operations. H&R Block Canada, Inc. ("Block Canada") and its franchisees prepared approximately 1,752,000 Canadian regular and discounted returns filed with Revenue Canada during the 2001 income tax filing season, compared to 1,805,000 Canadian returns prepared during fiscal year 2000, and 1,858,000 Canadian returns prepared in fiscal 1999. The number of offices operated by Block Canada and its franchisees decreased in fiscal year 2001 to 944 from 966 in fiscal year 2000 (1,032 in 1999). Of the 944 offices in Canada, 489 were owned and operated by Block Canada and 455 were owned and operated by franchisees. Block Canada operated 122 offices in department stores in Canada in fiscal year 2001, including 76 offices in Sears' facilities. In fiscal 2000, Block Canada operated 142 offices in department stores in Canada (compared to 164 offices in fiscal year 1999), including 79 offices in Sears' facilities (compared to 86 offices in fiscal year 1999).

Block Canada and its franchisees offer a refund discount ("CashBack") program to their customers in Canada. Canadian law specifies the procedures which Block Canada must follow in conducting the program. In accordance with current Canadian regulations, if a customer's tax return indicates that such customer is entitled to a tax refund, a check is issued by Block Canada to the client for an amount which is equal to the sum of (i) 85% of that portion of the anticipated refund which is less than or equal to $300 and (ii) 95% of that portion of the refund in excess of $300. The client assigns to Block Canada the full amount of the tax refund to be issued by Revenue Canada. The refund check is then sent by Revenue Canada directly to Block Canada, which then deposits the refund check into its bank account. In accordance with the law, the discount is deemed to include both the tax return preparation fee and the fee for tax refund discounting. This program is financed by short-term borrowings. In some parts of Canada, CashBack services are offered at offices identified as "H&R Block Express." The number of returns discounted under the CashBack program in fiscal year 2001 was approximately 532,000, compared to 547,000 in fiscal year 2000 and 516,000 in fiscal year 1999.

Block Canada also provides check cashing and other low-end financial services through its subsidiary Cashplan Systems Inc. These services are offered in offices operated under the name "Financial Stop," where no tax return preparation services are offered, as well as in some H&R Block Express offices.

Australian Operations. The number of returns prepared by H&R Block Limited, the Company's indirect subsidiary in Australia, and by franchisees in Australia, increased to approximately 486,000 from 455,000 in fiscal year 2000 and 428,000 in fiscal 1999. The number of offices operated by H&R Block in Australia in fiscal year 2001 was 350, compared to 349 offices in fiscal year 2000 and 347 offices operated in fiscal year 1999. Of the 350 offices, 245 were owned and operated by H&R Block Limited and 105 were franchised offices.

United Kingdom Operations. The Tax Team Limited, an indirect subsidiary of the Company, provides tax return preparation services in the United Kingdom. The Tax Team Limited operated 23 offices in fiscal year 2001, compared to 26 offices operated in fiscal years 1999 and 2000.

Seasonality of Business. Revenues in this segment are seasonal in nature with peak revenues occurring during the applicable tax season (January through April in Canada; July through October in Australia; and August through March in the United Kingdom).

Competitive Conditions. The tax return preparation business is highly competitive, with a substantial number of firms offering tax preparation services. Block Canada and H&R Block Limited believe that they each operate the largest tax return preparation business in their respective countries. The Tax Team Limited believes that it is one of the largest providers of tax preparation services in the United Kingdom.

Government Regulation. Statutes and regulations relating to income tax return preparers, electronic filing, franchising and other areas affecting the income tax business also exist outside of the United States. In addition, the Canadian government regulates the refund discounting program in Canada, as discussed under "Canadian Operations," above. These laws have not materially affected the international tax operations conducted by subsidiaries of the Company.

MORTGAGE OPERATIONS

Generally. Mortgage operations originate, service, and sell conforming and nonconforming mortgage loans in the United States. Conforming mortgages are those that may be offered through government sponsored loan agencies. Nonconforming mortgages are those that may not be offered through government-sponsored loan agencies and typically involve borrowers with impaired credit and have substantial equity in the property which will be used to secure the loan. Retail and wholesale mortgage origination services were offered in fiscal year 2001 through a network of 16,453 mortgage brokers in 31 offices.

Option One Mortgage Corporation. Option One, based in Irvine, California, has a network of more than 16,000 mortgage brokers in 48 states. Option One originates loans through wholesale and retail channels. Option One originated $6.5 billion in mortgage loans in fiscal year 2001, compared to $5.7 billion in fiscal year 2000 and approximately $3.6 billion in fiscal year 1999. The average Option One loan during fiscal year 2001 had a $108,800 principal balance (compared to $106,700 in fiscal year 2000 and $108,000 in fiscal

year 1999), and was secured by a first lien on a single-family residence. During fiscal 2001, Option One sold approximately $6.0 billion of mortgage loans, compared to $6.1 billion sold in fiscal 2000 and $3.6 billion in fiscal 1999. At the end of fiscal year 2001, Option One's servicing portfolio was 173,900 loans totaling more than $18.2 billion, compared to 114,300 loans totaling $11.3 billion at the end of fiscal 2000 and 65,300 loans totaling $6.5 billion at the end of fiscal 1999.

Wholesale originations represented the substantial majority of Option One's total loan production. Wholesale loan originations involve a broker who assists the borrower in completing the loan application, the gathering of necessary information and identifying a lender that offers a loan product which is best suited to the borrower's financial needs. Brokers are free to submit an application to one or more nonconforming lenders, such as Option One. Upon receipt of an application from a broker, Option One's branch office processes and underwrites the loan. Based upon this review, Option One advises the broker whether the loan application meets Option One's underwriting guidelines and product description by issuing a loan approval or denial, and in some cases, issues a "conditional approval," which requires the submission of additional information or clarification. Option One sells virtually all of its loan production through bulk sales of whole loans to institutional purchasers.

The Company utilizes off-balance sheet arrangements to fund its subprime production. Option One had commitments from three banks totaling $2 billion for external warehouse financing for its subprime mortgage production during most of fiscal year 2001. Option One received commitments in April 2001 from two banks totaling $2 billion for external warehouse financing for its subprime mortgage production over a 12-month period beginning in April 2001.

H&R Block Mortgage Corporation. H&R Block Mortgage is a retail mortgage lender for conventional, non-conventional and government loans and is licensed to conduct business in 50 states. H&R Block Mortgage is an approved seller/servicer for Fannie Mae and Freddie Mac and is HUD authorized to originate and underwrite FHA and VA mortgage loans. In fiscal year 2001, H&R Block Mortgage originated retail mortgage loans from various sales channels, including 35 branch offices in 15 states, and two regional call centers located in Tampa, Florida and Pleasanton, California, and by teaming with E-Loan over the Internet at www.hrblock.com. See "E-Commerce Initiatives" under "U.S. Tax Operations," above.

In April 2000, H&R Block Mortgage entered into a strategic alliance with Countrywide Home Loans, Inc. ("Countrywide") to sell 90% of its qualifying conforming mortgage loans to Countrywide. The majority of mortgage loans sold to Countrywide are underwritten through an automated system under which H&R Block Mortgage's representations and warranties relating to compliance with Countrywide's underwriting guidelines are assumed by Countrywide. This alliance allows H&R Block Mortgage, on average, an increase of 50 basis points in execution due to price, efficiencies in delivery, and elimination of redundancies in operations.

Service Marks and Trademarks. Option One claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

- AppOne
- CorOne
- Highway 1
- HouseKeeper
- No Sweat 95!
- Option One and Design
- PartnerPlus
- SumOne
- The Big 2

Competitive Conditions. Both the conventional and subprime sectors of the residential mortgage loan market are highly competitive. The principal methods of competition are in service, quality and price. There are a substantial number of companies competing in the residential loan market, including mortgage banking companies, commercial banks, savings associations, credit unions and other financial institutions. No one firm is a dominant supplier of conforming and nonconforming mortgage loans.

Seasonality of Business. Residential mortgage volume is subject to seasonal trends, with real estate sales being generally lower in the first calendar quarter of the calendar year, peaking in the spring and summer seasons, and then declining again in November and December. Accordingly, the revenues of the mortgage operations reporting segment are generally higher in the peak months, but the seasonal trends do not have a material impact on overall results of the Company.

Government Regulation. The Company believes that Federal and state statutes and regulations, as well as county and municipal regulations and ordinances, governing mortgage lending have not had and will not have a material adverse effect on the operations of its mortgage subsidiaries. However, the Company cannot predict what the effect may be of the enactment of new state or Federal statutes or municipal ordinances, or the adoption of new Federal, state or county regulations.

Applicable state laws generally regulate interest rates, other than first mortgage loans which are subject to a Federal preemption of all state usury laws, and other charges, require certain disclosures and, unless an exemption is available, require licensing of the originators of certain mortgage loans. In addition, most states have other laws, public policies and general principles of equity relating to the protection of consumers, unfair and deceptive practices, and practices that may apply to the origination, servicing and collection of mortgage loans.

During fiscal year 2001, there was a noticeable increase in state, county and municipal statutes, ordinances and regulations which prohibit or regulate "Predatory Lending" practices. "High-Cost Loans" are defined separately by each state, county or municipal statute, regulation or ordinance, but generally include mortgage loans that have interest rates that exceed a specified margin over the Treasury Index for a comparable

maturity, or exceed a designated percentage of points and fees. Statutes, ordinances and regulations that regulate High-Cost Loans generally prohibit mortgage lenders from engaging in certain defined practices, or require mortgage lenders to implement certain practices, in connection with any mortgage loans that fit within the definition of a High-Cost Loan. For example, many such laws and regulations prohibit mortgage lenders from imposing a prepayment penalty in connection with any mortgage loan that fits within the definition of a High-Cost Loan or require mortgage lenders to demonstrate a tangible net benefit to the Borrower as a result of the Borrower's entering into the mortgage loan transaction involving a High-Cost Loan.

The mortgage loans purchased or originated by the Company's mortgage subsidiaries are also subject to Federal laws and regulations, including, without limitation, the Federal Truth-in-Lending Act, as amended, and Regulation Z promulgated thereunder, the Equal Credit Opportunity Act, as amended, and Regulation B promulgated thereunder, the Fair Credit Reporting Act, as amended, the Federal Real Estate Settlement Procedures Act, as amended, and Regulation X promulgated thereunder, the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, the Home Mortgage Disclosure Act and Regulation C promulgated thereunder, the Federal Fair Housing Act and certain other laws and regulations. Under environmental legislation and case law applicable in certain states, it is possible that liability for environmental hazards in respect of real property may be imposed on a holder of a mortgage note secured by real property.

INVESTMENT SERVICES

Generally. The investment services operating segment provides investment advice, brokerage services and financial planning primarily through H&R Block Financial Advisors, Inc. (formerly OLDE Discount Corporation). In December 1999, the Company acquired OLDE Financial Corporation ("OLDE Financial"), a Detroit-based financial services holding company that is the parent company of HRBFA. OLDE Discount Corporation was rebranded during fiscal year 2001 by changing its name to H&R Block Financial Advisors, Inc. effective August 1, 2000.

HRBFA is a registered broker-dealer with the SEC and is a member of the New York Stock Exchange ("NYSE"), other national securities exchanges and the National Association of Securities Dealers, Inc. ("NASD"). HRBFA is one of the largest retail investment firms in the United States offering financial advice and other financial services to retail clients at discounted commission rates through its network of financial advisors in HRBFA branch offices.

Although HRBFA accounts for its revenues and expenses on a calendar fiscal year basis and had record revenues for its fiscal year 2000, like other brokerage firms, it suffered from declining activity by retail investors during the Company's 2001 fiscal year and a corresponding decline in margin balances. In line with the market decline, average trading volumes fell during the year by more than 46% as measured by average trades per day. Impacted by market performance, volatility and investor uncertainty, and consistent with the rest of the industry, margin balances at HRBFA had fallen by the end of fiscal year 2001 from an average of $2,415 million to $1,288 million.

In an effort to reduce expenses to counteract reduced revenues, HRBFA reduced approximately six percent of its total workforce in non-advisor positions in April 2001. Several support functions at HRBFA were consolidated and aligned with corresponding departments within other subsidiaries of the Company.

Despite the difficult financial and market environment, HRBFA successfully rebranded the business and expanded its product line, online capabilities and level of service to clients during fiscal year 2001.

HRBFA Brokerage and Other Services. HRBFA is a full service securities broker-dealer providing a full range of financial services to its clients in the United States. It typically effects transactions for its clients at commission rates lower than the rates full-commission brokerage firms charge. Revenues from HRBFA's brokerage activities are generated through client purchases and sales of stocks, investment-grade fixed income products, options, mutual funds, investment trusts, and other financial products. Commissions may be charged on both listed and over-the-counter ("OTC") transactions executed on an agency basis. HRBFA also offers services and products typically offered by traditional full-commission firms, such as investment research with regard to individual securities and goal-oriented financial planning. Other services and products offered include money market funds with sweep provisions for settlement of client transactions; margin accounts; checking privileges; option accounts; dividend reinvestment plans; and individual retirement accounts ("IRAs"). During fiscal year 2001, HRBFA also expanded its product line to include the sale of annuities in several states.

During the 2001 tax season, H&R Block tax clients in 14 states were given the opportunity to open an Express IRA through HRBFA as a part of the tax return preparation process. Clients were able to open an Express IRA by simply using all or part of their tax refund or by writing a personal check for the IRA amount. The Express IRA is invested in an FDIC Insured money market account through Reserve Management Corporation at an insured depository institution paying competitive money market interest rates. Clients funded approximately 25,000 Express IRAs in fiscal year 2001.

After year-end, HRBFA introduced to account holders a service that makes it possible for clients to handle all of their investment and banking activities from one convenient, flexible brokerage account with cash management features. The cash management features include no-minimum checking, unlimited check writing, a credit interest program that allows interest to be earned on balances over $100, a variety of money market fund options, a VISA(R) Gold ATM/check card with a 1% cash rebate on card purchases and an airline miles program, one consolidated monthly statement and a year-end account summary. HRBFA also began offering college savings products - called 529 Plans - through state-sponsored investment programs that allow clients to make tax-free withdrawals for qualified education expenses after December 31, 2001.

Dealer and Market Making Activities. HRBFA is also a dealer and engages in market making activities in common stocks, regularly trading in securities on a principal basis and for its own account in the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), OTC market and on regional stock exchanges. HRBFA acts as a qualified dealer in certain listed securities on the Cincinnati Stock Exchange. In

addition, HRBFA regularly trades in corporate and municipal bonds, various U.S. Government and U.S. Government Agency securities and certificates of deposit.

When HRBFA executes transactions as a dealer on a principal basis, it may charge mark-ups or mark-downs which are equivalent to its commission schedule. Under certain circumstances, customers with an account minimum of $500,000 in equity may be eligible to effect common stock transactions in which commissions, mark-ups and/or mark-downs are not charged. HRBFA selects the stocks in which it makes a market based upon fundamental and market factors. For those stocks in which HRBFA makes a market, it may derive revenue from the spread, which is the difference between the bid and offer prices. However, due to the nature of the activity and the volatility of the securities markets, HRBFA may realize losses as a result of adverse market fluctuations.

Financial Advisor Compensation. Financial advisors receive compensation in a combination of plans in the form of commissions on HRBFA's revenues from customer transactions, a salary or draw against commissions and/or may receive additional compensation on customer transactions in securities recommended by HRBFA or for which HRBFA provides research as a result of the firm's market making activities.

Tax Professional Financial Advisors. During fiscal year 2001, the Company's subsidiaries further tested and expanded the Tax Professional Financial Advisor ("TPFA") program, by which H&R Block tax professionals expand their roles to provide financial services to tax clients. TPFAs have licenses to sell mutual funds and/or insurance products and in some instances, equity securities recommended by HRBFA. The number of TPFAs grew from 150 to more than 430 during the 2001 fiscal year and they provided investment services to more than 3,000 tax clients. The TPFAs were registered representatives of Birchtree Financial Services, Inc., an indirect subsidiary of the Company and an investment firm headquartered in Kansas City, Missouri. In fiscal year 2002, the TPFAs will become financial advisors licensed with HRBFA.

Integrated Online Services. HRBFA provides an online investment center through the Company's web site located at www.hrblock.com. HRBFA provides online users the opportunity to open accounts, obtain research, create financial plans, buy and sell securities, and view the status of their accounts online. The online financial planning service gives HRBFA clients the ability to create and view a personal financial plan while simultaneously receiving advice by telephone from an H&R Block financial advisor who is viewing the same information. Clients can create, view or edit a financial plan for many different life-changing events such as retirement, college, a new child or the purchase of a house. After developing a plan, clients have the option to allow an advisor to execute the plan or they can do it themselves at the investment center. Through April 2001, approximately 96,000 accounts had been web enabled and, in April 2001, more than 7,000 securities transactions were effected online. Additional information regarding online operations is provided under the "E-Commerce Initiatives" in the "U.S. Tax Operations" section, above.

Advertising and Marketing. Advertising and marketing play a significant role in the expansion of HRBFA's client base as well as the introduction of new products and services. HRBFA may use a combination of media including newspapers, magazines, the

yellow pages, television, and its Internet home page to advertise and market its products and services. When an investor contacts HRBFA, the investor receives a package of information including an account application and a brochure containing information on the services and products offered by HRBFA. Additional detailed information is available upon request and can be tailored to match the client's investment preferences.

Retail Branch Offices. HRBFA is authorized to do business as a broker-dealer in all 50 states and the District of Columbia. At fiscal year end, HRBFA operated in 525 offices, compared to 198 offices at the end of fiscal year 2000. Some HRBFA offices offer, in addition to financial products and services, tax preparation and, in a limited number of offices, mortgage services, year-round to clients. HRBFA believes that the existence of branch offices contributes to its growth and client satisfaction. The existence of a branch office generally results in an increase in unsolicited customer transactions in the geographic area near the office. Many clients prefer to conduct business in person in local rather than in distant offices or online. Clients may use branch offices to receive and deliver checks and deliver securities.

Service Marks and Trademarks. HRBFA claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Chevron Design	SmartTrading
IRA United	SmartTravel
The OLDE Investors Account	SmartVest
SmartBroker	SmartVestor
SmartRetirement	SmartViews
SmartTrade	SmartWire

HRBFA also claims ownership of the following unregistered trademark:

The Easy Way to Financial Success

Competitive Conditions. HRBFA competes directly with a broad range of companies seeking to attract consumer financial assets, including full-service discount brokerage firms, discount and online brokerage firms, mutual fund companies, investment banking firms, commercial and savings banks, insurance companies and others. The financial services industry has become considerably more concentrated as numerous securities firms have been acquired by or merged into other firms. Some of these competitors have greater financial resources than HRBFA and offer certain additional financial products and services. In addition, HRBFA expects competition from domestic and international commercial banks to continue to increase as a result of legislative and regulatory initiatives in the U.S. (including the passage of the Gramm-Leach-Bliley Act in November 1999) to remove or relieve certain restrictions on mergers between commercial banks and other types of financial services providers. HRBFA primarily competes with these firms on quality of service, breadth of products and services offered, prices, accessibility through delivery channels, and technological innovation and expertise.

Discount brokerage firms and online-only financial services providers compete vigorously with HRBFA with respect to commission charges. Full-commission brokerage firms also offer more product breadth, discounted commissions and on-line services to selected retail brokerage customers. In addition, some competitors in both the full-commission and discount brokerage industries have substantially increased their spending on advertising and direct solicitation of customers.

Competition in the online trading business has become similarly intense as recent expansion and customer acceptance of conducting financial transactions online has attracted new brokerage firms to the market. Price competition continues to intensify in online investing as traditional brokerage firms have entered the market and existing competitors have aggressively sought to gain market share.

Seasonality of Business. The investment services operating segment does not, as a whole, experience significant seasonal fluctuations. However, the securities business is cyclical, directly affected by national and world economic and political conditions, trends in business and finance and changes in the conditions of the securities markets in which HRBFA's clients trade.

Government Regulation. The securities industry is subject to extensive regulation covering all aspects of the securities business, including registration of HRBFA's offices and personnel, sales methods, the acceptance and execution of customer orders, the handling of customer funds and securities, trading practices, capital structure, record keeping policies and practices, margin lending, execution and settlement of transactions, the conduct of directors, officers and employees, and the supervision of employees. The various governmental authorities and industry self-regulatory organizations which have supervisory and regulatory jurisdiction over the Company's broker-dealer subsidiaries generally have broad enforcement powers to censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees who violate applicable laws or regulations.

The Securities and Exchange Commission is the federal agency responsible for the administration of the federal securities laws. HRBFA is registered as broker-dealer, and OLDE Asset Management, Inc., a subsidiary of OLDE Financial, is a registered investment adviser with the SEC. Much of the regulation of broker-dealers has been delegated by the SEC to self-regulatory organizations, principally the Municipal Securities Rulemaking Board, the NASD Regulation, Inc. and the New York Stock Exchange ("NYSE"), which has been designated as HRBFA's primary regulator. These self-regulatory organizations adopt rules (subject to approval by the SEC) that govern the industry and conduct periodic examinations of the operations of HRBFA's brokerage and clearing activities. Securities firms are also subject to regulation by state securities administrators in those states in which they conduct business.

As a registered broker-dealer, HRBFA is subject to the net capital rule (Rule 15c3-1) promulgated by the SEC and adopted through incorporation by reference in NYSE Rule 325. The Rule, which specifies minimum net capital requirements for registered brokers and dealers, is designed to measure the financial soundness and liquidity of a broker-dealer and requires at least a minimum portion of its assets be kept in liquid form.

HRBFA has elected to compute net capital under the alternative method of computation permitted by Rule 15c3-1 which required that net capital be not less than the greater of $1,000,000 or 2% of combined aggregate debit balances (primarily receivables from customers and other broker-dealers). In computing net capital, various deductions are made from net worth and qualifying subordinated indebtedness. These deductions include the book value of assets not readily convertible into cash and prescribed percentages of securities owned or sold short.

Any failure of HRBFA to maintain the required minimum net capital may subject HRBFA to suspension or revocation of registration or other limitations on the firm's activity by the SEC, and suspension or expulsion by the NYSE, NASD or other regulatory bodies, and ultimately could require the broker-dealer's liquidation. HRBFA could also be prohibited from paying dividends or redeeming stock. HRBFA would be prohibited from prepaying or making payments of principal on subordinated indebtedness if its net capital were to become less than the greater of 5% of combined aggregate debit balances or $1,000,000. Under NYSE Rule 326, HRBFA is required to reduce its business if its net capital is less than 4% of aggregate debit balances and is prohibited from expanding business or redeeming subordinated indebtedness if its net capital is less than 5% of its aggregate debit balances. Net capital rules could limit HRBFA's ability to engage in new activities and expansion, and could restrict the Company's ability to withdraw capital from its brokerage subsidiaries. Such a restriction in turn, could limit the Company's ability to repay or reduce indebtedness (including subordinated debentures of the Company) and pay dividends. Further, a significant operating loss or an extraordinary charge against net capital could adversely affect HRBFA's ability to expand or maintain its current levels of business. At April 30, 2001, HRBFA's net capital of $257.7 million, which was 18.8% of aggregate debit items, exceeded by $230.3 million its minimum required net capital of $27.4 million. HRBFA made a capital withdrawal to BFC of $50 million at fiscal year-end.

BUSINESS SERVICES

Generally. The business services operating segment, which is conducted primarily through RSM McGladrey, Inc., a direct subsidiary of HRB Business Services, Inc. ("HRBBS"), provides accounting, tax and consulting services to business clients, primarily mid-sized companies, and tax, estate planning and financial planning services to individuals in the United States through a network of more than 100 offices.

In addition to providing these services to the public, RSM and certain other subsidiaries involved in the business services segment provide management and administrative services to the public accounting firms from which non-attest assets have been acquired. RSM and certain other subsidiaries receive fees from the public accounting firms, which continue to provide to the public "attest" services that constitute the practice of public accounting which H&R Block and its subsidiaries, by regulation, generally cannot provide.

RSM McGladrey, Inc. RSM has more than 100 offices and offers services in 13 of the top 25 U.S. markets through its staff of more than 2,800 employees, which includes more than 480 managing directors. RSM is also linked with more than 80 independently

owned CPA firms in the United States and Puerto Rico through the McGladrey Network. In addition, RSM is the U.S. member of RSM International, the seventh largest accounting and consulting organization in the world, with 550 offices in 75 countries.

During the past fiscal year, the Company integrated five of its previously acquired regional accounting firms into RSM. Prior to the McGladrey acquisition, HRBBS, either directly or through its direct subsidiaries, had acquired regional accounting firms in Kansas City, Chicago, Indianapolis, Buffalo, Dallas, Baltimore, and Philadelphia.

On October 2, 2000, RSM purchased the non-attest assets of Edward Isaacs & Company, LLP ("EICO"), a firm with offices in New York City and White Plains, New York. EICO's acquired operations were combined with RSM's existing New York City practice, creating offices with a staff of more than 300 people and making it one of the area's largest firms providing business advisory services for mid-sized companies.

On December 1, 2000, RSM acquired the non-attest assets of Keller Bruner & Company, LLP ("Keller Bruner"), one of the Washington, D.C. area's largest regional tax, accounting and consulting firms, with offices in Bethesda and Frederick, Maryland and Alexandria, Virginia.

Other acquisitions by RSM in fiscal year 2001 enabled it to strengthen its presence in Des Moines, Iowa and expand its operations to Boston, Massachusetts.

On December 31, 2000, the Company sold substantially all of the assets of its wholly-owned, indirect subsidiary, KSM Business Services, Inc. ("KSM"), an Indianapolis-based tax, accounting and consulting firm, to KSM Services, Inc., an entity formed by the partners of Katz Sapper & Miller, LLP. KSM had acquired the non-attest assets of Katz Sapper & Miller, LLP in November 1998.

The 1998 acquisition was the third regional accounting firm acquisition made by the Company prior to its August 1999 acquisition of the non-attest assets of McGladrey & Pullen, LLP ("McGladrey").

McGladrey's attest business (including audit, reviews and other engagements in which the firm issues written opinions evaluating client financial statements) remains in a partnership owned by the McGladrey & Pullen LLP partners and is accordingly a separate company.

Until recently, the SEC had no published rules on the application of the auditor independence rules to firms such as McGladrey, whose partners are also employed by RSM. On February 5, 2001, revised SEC auditor independence rules that apply to the accounting firm and its "associated entities" became effective. The SEC staff has advised McGladrey that it considers the Company and all of its subsidiaries to be associated entities. Accordingly, any financial interest or business relationship of the Company with a client of McGladrey that is subject to the SEC's auditor independence rules (an SEC Audit Client) will be regarded by the SEC staff as a financial interest or business relationship between McGladrey and the SEC Audit Client. Under the SEC's auditor independence rules, McGladrey and its partners are precluded from holding certain financial interests in and entering into certain business relationships with an SEC Audit Client for whom McGladrey performs audit services.

In connection with the evaluation of the regulatory restrictions and environment, the Company and McGladrey have had discussions with the staff of the SEC regarding appropriate disclosure of the policy and procedures that have been implemented by McGladrey, RSM and the Company to safeguard McGladrey's independence and integrity as an audit firm in compliance with applicable regulations and professional responsibilities.

The Company and McGladrey have enacted certain policies and controls to monitor and prevent violations by them of the SEC's auditor independence rules as interpreted by the SEC staff. These policies and controls include the following:

- The Company has informed the management of each of its business units of the SEC staff's interpretation that certain financial interests and business relationships with McGladrey SEC Audit Clients are prohibited in as much as they would be deemed to impair McGladrey's independence as an auditor.
- McGladrey's Independence and Relationship Policies and the Code of Professional Conduct promulgated by the American Institute of Certified Public Accountants ("AICPA"), which address auditor independence issues, have been distributed to all of the Company's executive officers and directors.
- McGladrey's Prohibited Securities List, which lists securities of McGladrey SEC Audit Clients, is distributed to the Company's executive officers and directors on a monthly basis so that they can monitor compliance by the business units for which they are responsible.
- Each of the Company's executive officers, directors and affiliates submits an Independence Compliance Questionnaire ("Questionnaire") that addresses auditor independence issues. Each Questionnaire is reviewed by McGladrey's partner responsible for independence matters.
- McGladrey informs the audit committee of each SEC Audit Client, in writing, of the SEC staff's interpretation regarding the attribution to McGladrey, for purposes of McGladrey's auditor independence of the financial interests and business relationships of the Company with SEC Audit Clients.
- McGladrey informs the audit committee of each SEC Audit Client of the SEC staff's interpretation that ownership of the Company's stock by such SEC Audit Client or ownership of more than 5% of the Company's stock by its officers or directors would affect McGladrey's independence as an auditor, and McGladrey obtains representations from

each SEC Audit Client that it owns no shares of the Company.

- McGladrey has designated a partner responsible for independence matters who reports directly to its Managing Partner. The partner responsible for independence matters monitors changes in independence standards promulgated by the AICPA, the Independence Standards Board ("ISB", which is being disbanded) and the SEC. This partner periodically recommends corresponding modifications to McGladrey's Independence Relationship Policies that become effective upon the approval of McGladrey's Board of Directors.
- RSM has agreed to comply and cause its employees to comply with the Independence and Relationship policies of McGladrey.
- Employees of RSM and employees of McGladrey are informed of changes to McGladrey's Independence and Relationship Policies and its Prohibited Securities List on a monthly basis via electronic bulletin boards.

- Employees of RSM and partners and employees of McGladrey periodically complete an Independence Compliance Questionnaire that is reviewed and approved by McGladrey's National Office of Audit & Accounting. All exceptions are reviewed by and approved by McGladrey's partner responsible for independence matters, its Managing Partner and its Board of Directors.

- As mandated by its membership in the SEC Practice Section of the AICPA, McGladrey has implemented independence training programs and programs to test compliance with its Independence and Relationship Policies and the completeness and accuracy of Independence Compliance Questionnaires.

- McGladrey has established consultation procedures for the resolution of all identified exceptions to its policies and AICPA, ISB or SEC independence requirements. The Company and RSM have agreed to cooperate fully with McGladrey in the resolution of all exceptions and the implementation of any remedial actions, including disciplinary actions.

While the Company and McGladrey believe that their policies and controls in place regarding auditor independence are reasonable and adequate to address the matters involved, there can be no assurance (and the SEC staff has indicated that it cannot provide any assurance) that such policies and controls will positively ensure complete compliance by the Company, RSM and McGladrey with the SEC auditor independence rules as interpreted by the SEC staff. Any noncompliance by the Company, RSM or McGladrey with such rules may impair McGladrey's independence as an auditor of SEC Audit Clients and may adversely affect the ability of McGladrey to attract and retain such clients and perform audits of financial statements filed with the SEC.

Seasonality of Business. Revenues for this segment are seasonal in nature, with peak revenues occurring during January through April.

Service Marks and Trademarks. RSM claims ownership of the following unregistered service marks and trademarks:

Business Recovery Planning System
Business Continuity Planning System
E-Accounting
McGladrey Network
Market Builder
Personal Prosperity
Value Enhancement Solutions

FERS Business Services, Inc. ("FERS"), a wholly owned subsidiary of RSM, claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Because Results Come First
Benelink
FERS Profit Edge
Tonelink

FERS claims ownership of the following unregistered service mark and trademark:

Pension Resources

Practice Development Institute, Inc., a direct subsidiary of HRBBS, claims ownership of the following unregistered service marks and trademarks:

CPEC
Employment Law Briefing
PDI Practice Development Institute
Turning Your Firm's Potential Into Profit

Toback, Inc., a wholly owned subsidiary of RSM, claims ownership of the following service marks and trademarks registered on the principal register of the United States Patent and Trademark Office:

Solutions for Today. Strategies for Tomorrow.
The Local Firm with a National Reputation

Competitive Conditions. The accounting and consulting business is highly competitive. There are a substantial number of accounting firms offering similar services at the international, national, regional and local levels.

Government Regulation. Many of the same Federal and state regulations relating to tax preparers and the information concerning tax reform discussed above in "Government Regulation" section of "U.S. Tax Operations" apply to Business Services as well, except that accountants are not subject to the same prohibition on the use or disclosure of certain income tax return information as the Tax Services income tax return preparers are. These accounting firms are also subject to state and Federal regulations governing accountants, auditors and financial planners. The Company believes that these state and Federal regulations do not and will not have a material adverse effect on the operations of the Company and its subsidiaries, but it cannot predict what the effect of future regulations may be.

ITEM 2. PROPERTIES

The executive offices of the Company, H&R Block Services, Inc., Tax Services, BFC and HRBBS are located at 4400 Main Street, Kansas City, Missouri, in a multi-level building owned by Tax Services. The building was constructed in 1963 and expanded or redesigned in 1965, 1973, 1981, and 1996. In fiscal year 2000, H&R Block Tax Services, Inc. entered into a 20-year lease for a newly constructed building located at 4400 East Blue Parkway, Kansas City, Missouri, which is being utilized by Tax Services and its affiliates as a service center. Most other offices of Tax Services (except those in department stores) are operated in premises held under short-term leases providing fixed monthly rentals, usually with renewal options. BFC also leases other office space in Kansas City, Missouri.

Option One's executive offices are located in leased offices at 3 Ada, Irvine, California. Option One also leases offices for its branch office operations throughout the

United States. H&R Block Mortgage is headquartered in leased offices in Burlington, Massachusetts. H&R Block Mortgage also leases offices in Arizona, California, Colorado, Connecticut, Florida, Illinois, Indiana, Massachusetts, Maine, Michigan, New Hampshire, New Jersey, Ohio and Virginia.

The executive offices of HRBFA and OLDE Financial are located at 751 Griswold, Detroit, Michigan in a building owned by OLDE Financial. Many branch offices of HRBFA are located in facilities owned by various real estate subsidiaries of OLDE Financial and leased primarily to HRBFA. Some branch offices are operated in leased premises.

RSM's executive offices are located in leased offices located at 3600 West 80th Street, Bloomington, Minnesota. Its administrative offices are located in leased offices at 220 North Main Street, Davenport, Iowa. RSM also leases office space in 21 states.

ITEM 3. LEGAL PROCEEDINGS

CompuServe Corporation ("CompuServe"), certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits is unspecified, but includes pleas for rescission and damages. In July 1998, the state court certified a plaintiff class of all persons and entities who purchased shares of common stock of CompuServe between April 18, 1996 and July 16, 1996 pursuant to the initial public offering or on the open market, and who were damaged thereby, excluding the named defendants and their affiliates.

In July 2000, the class representatives and the defendants in the class action pending in state court, by their authorized counsel, entered into a Stipulation of Settlement, pursuant to which the defendants were required to pay a gross settlement amount of $9.5 million in exchange for dismissal of the class action suit and a release of all claims. The fairness hearing relating to the settlement was held on November 30, 2000, and the court issued its order approving the settlement. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The Stipulation and the payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability. The Stipulation states that the defendants consider it desirable to settle to avoid further expense, inconvenience, and delay, and to put to rest all controversy concerning all claims.

The Florida State Board of Administration opted out of the class action settlement and that litigation continues separately from the state court class action. The parties have reached a settlement that will dispose of the case in its entirety with no material adverse impact on the Company's consolidated financial position or results of operation.

The Company and its subsidiaries are involved in various litigation and claims as both defendant and plaintiff relating to matters which arise in the normal course of business which management believes will not have a material adverse effect on the Company's consolidated results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended April 30, 2001.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages and principal occupations (for the past five years) of the executive officers of the Company, each of whom has been elected to serve at the discretion of the Board of Directors of the Company are as follows:

Name and age	Office(s)
Frank L. Salizzoni (63)	Chairman of the Board of Directors since September 2000; Chief Executive Officer from June 1996 through December 2000; President from June 1996 through September 1999; Member of the Board of Directors since 1988. See Note 1.
Mark A. Ernst (43)	Chief Executive Officer since January 2001; President of the Company since September 1999; Chief Operating Officer from September 1998 through December 2000; Executive Vice President from September 1998 until September 1999. See Note 2.
Jeffery W. Yabuki (41)	Executive Vice President since October 2000; President, H&R Block Services, Inc. since October 2000; President, H&R Block International from September 1999 until October 2000. See Note 3.
David F. Byers (39)	Senior Vice President and Chief Marketing Officer since June 1999. See Note 4.
Frank J. Cotroneo (42)	Senior Vice President and Chief Financial Officer since February 2000. See Note 5.

Name and age	Office(s)
Stephanie R. Otto (40)	Senior Vice President, Human Resources since July 2000; Vice President, Human Resources August 1999 through June 2000; Vice President, National Director of Finance, HRB Business Services, Inc., October 1998 through August 1999; Director, Internal Audit, December 1995 until October 1998.
Robert E. Dubrish (49)	President and Chief Executive Officer, Option One Mortgage Corporation, since March 1996. See Note 6.

Thomas P. Fitzgerald (44)	Executive Vice President and Chief Operating Officer, H&R Block Financial Advisors, Inc. since July 7, 2000; Member of the Office of the President, H&R Block Financial Advisors, Inc. since December 2000; Senior Vice President, General Counsel and Head of Administration, OLDE Discount Corporation, December 1999 until July 7, 2000. See Note 7.
Thomas G. Rotherham (51)	Chief Executive Officer, RSM McGladrey, Inc. since April 2000; President, RSM McGladrey, Inc. since August 1999; Chief Operating Officer, RSM McGladrey, Inc. from August 1999 to April 2000. See Note 8.
Bernard M. Wilson (39)	Senior Vice President, Financial Services Group, Block Financial Corporation since February 2000; Senior Vice President and Member of the Office of the President, H&R Block Financial Advisors, Inc. since December 2000; Vice President and General Manager, Financial Services Group, November 1998, Block Financial Corporation, November 1998 through December 2000. See Note 9.
Thomas L. Zimmerman (51)	President, H&R Block Tax Services, Inc., since June 1996; Executive Vice President, Field Operations, H&R Block Tax Services, Inc. from May 1994 through May 1996.

Name and age	Office(s)
Cheryl L. Givens (35)	Vice President and Corporate Controller since July 1998; Assistant Vice President and Assistant Controller from October 1996 until July 1998; Assistant Vice President and Corporate Controller from June 1996 until October 1996.
James H. Ingraham (47)	Vice President and General Counsel since July 1999; Secretary since June 1990; Vice President, Legal from October 1996 through June 1999; Assistant Vice President, Corporate Legal and Human Resources from December 1995 until October 1996.
Linda M. McDougall (48)	Vice President, Communications since July 1999; Assistant Vice President, Communications from November 1995 through June 1999.
Timothy R. Mertz (50)	Vice President, Corporate Tax since October 2000. See Note 10.
Brian N. Schell (35)	Vice President and Treasurer since

	December 1997; Senior Vice President and Chief Financial Officer of H&R Block Financial Advisors, Inc. since July 2001; Director of Investor Relations from November 1996 until October 2000; Assistant Treasurer from November 1996 until December 1997; Director of Corporate Development from May 1995 until December 1997.
Robert A. Weinberger (57)	Vice President, Government Relations, since March 1996.
Bret G. Wilson (42)	Vice President, Corporate Development and Risk Management since October 2000; Vice President, Corporate Planning and Development from September 1999 until October 2000; Vice President, Corporate Development, from December 1997 until September 1999; Vice President, Mortgage Operations, Block Financial Corporation, since March 1997; Vice President, Corporate Counsel and Secretary, Block Financial Corporation, from June 1994 until March 1997.

Note 1: Mr. Salizzoni served as Chairman of the Board of CompuServe Corporation from October 1996 until January 1998.

Note 2: Mr. Ernst served as Senior Vice President, Third Party and International Distribution for American Express Company, Minneapolis, Minnesota, from July 1997 until June 1998; Senior Vice President, WorkPlace Financial Services, American Express Company, from November 1995 until July 1997.

Note 3: Mr. Yabuki served as President and Chief Executive Officer of American Express Tax & Business Services, Inc., New York, New York, from 1998 to September 1999; Vice President, Mergers and Acquisitions, American Express, Minneapolis, Minnesota, from 1996 to 1998; and Regional Vice President, American Express Tax & Business Services, Inc., Los Angeles, California and Minneapolis, Minnesota, from 1991 to 1996.

Note 4: Mr. Byers was employed by Foote, Cone and Belding, an advertising agency in San Francisco, California, from June 1987 until May 1999, most recently serving as the Senior Vice President and Director of Business Development.

Note 5: Mr. Cotroneo served as the Chief Financial Officer of MasterCard International, Inc., New York, New York from 1996 to February 2000 and as Regional Financial Officer, MasterCard International, Inc., Singapore, from 1992 to 1996.

Note 6: Block Financial Corporation acquired Option One Mortgage Corporation on June 17, 1997, at which time Mr. Dubrish became an employee of a subsidiary of the Company.

Note 7: Mr. Fitzgerald was General Counsel for OLDE Discount Corporation from March 1995 through July 7, 2000. The Company acquired OLDE Discount Corporation in December 1999 and changed its name to H&R Block Financial Advisors, Inc. on August 1, 2000.

Note 8: Mr. Rotherham served as a Member of the Office of the Managing Partner of McGladrey & Pullen LLP from 1997 through August 1999 and as the Managing Partner of Audit and Accounting for McGladrey & Pullen LLP from 1995 to 1997. The Company acquired the non-attest assets of McGladrey & Pullen LLP on August 1, 1999, at which time Mr. Rotherham became an employee of a subsidiary of the Company.

Note 9: Mr. Wilson was Senior Vice President of Financial Services for GMAC Mortgage Corporation, Philadelphia, Pennsylvania, from September 1998 until October 1998 and Vice President of International Operations, American Express Financial Advisors, Minneapolis, Minnesota, from March 1987 until September 1998.

Note 10: Mr. Mertz was Vice President of Treasury for Payless Cashways, Inc., a full-line building material and finishing products company, in Lee's Summit,

Missouri from September 1998 through September 2000. He also served as Director of Taxes and Risk Management for Payless Cashways, Inc. from October 1987 until September 1998.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information called for by this item is contained in part in the Company's annual report to security holders for the fiscal year ended April 30, 2001, under the heading "Common Stock Data," and is hereby incorporated by reference. The Company's Common Stock is traded principally on the New York Stock Exchange. The Company's Common Stock is also traded on the Pacific Exchange. On June 11, 2001, there were 30,897 shareholders of record of the Company.

ITEM 6. SELECTED FINANCIAL DATA.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 2001, under the heading "Selected Financial Data," and is hereby incorporated by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information called for by this item is contained in the Company's annual report to security holders for the fiscal year ended April 30, 2001, under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," and is hereby incorporated by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

GENERALLY

In the operations of its subsidiaries and the reporting of its consolidated financial results, the Company is affected by changes in interest rates and currency exchange rates. The principal risks of loss arising from adverse changes in market rates and prices to which the Company and its subsidiaries are exposed relate to:

- interest rates on cash equivalents, available-for-sale securities, residual interests in securitizations, mortgage servicing rights ("MSRs"), mortgage loan origination commitments, investments in mortgage loans held for sale, debt and margin lending activities; and
- foreign exchange rates, generating translation gains and losses
- trading securities

Changes in interest rates and/or exchange rates have not, and are not expected to, materially impact the consolidated financial position, results of operations or cash flows of the Company.

The Company and its subsidiaries have market risk sensitive instruments entered into for "non-trading" and "trading" purposes. The Company's broker-dealers hold marketable securities for trading purposes.

NON-TRADING

Interest rates. The Company's rate-sensitive assets and liabilities are managed centrally by the office of the Chief Financial Officer of the Company. The Finance Committee of the Company's Board of Directors approves the Company's policies and procedures utilized to manage the Company's interest rate risk.

The Company has established investment guidelines to help minimize market risk exposure of its available-for-sale securities portfolio. These guidelines focus on managing liquidity, preservation of principal, and earnings, which are primarily affected by credit quality and movements in LIBOR rates.

Nearly 51% of the Company's cash equivalents ("CE") and available-for-sale securities ("AFS") are classified as short term, compared to 62% last year. These assets are primarily held for liquidity purposes and are comprised of highly rated, short-term securities, including qualified money market funds (taxable and tax-exempt) and securities that reset off of LIBOR either daily, weekly or monthly. As of April 30, 2001, the portfolio had a duration of 0.4 years with an average credit quality of AA+ compared to the portfolio as of April 30, 2000 which had a duration of 0.2 years with an average credit quality of AAA. With such a short maturity, the portfolio's market value is relatively insensitive to interest rate charges.

Assuming a 50 basis point decline in interest rates (an approximate 10% decline) in CE and AFS, consolidated pretax earnings would have declined by approximately $0.2 million, or about .04%. In fiscal 2000, this change would have negatively impacted pretax earnings by $2 million, or about one-half of one percent. The modeled impact of the interest change assumed a 50 basis point decline across the entire yield curve and assumed that the securities re-priced at the lower interest rate, yielding lower investment income and no change in market value due to the portfolio's short duration.

The Company's residual interests in securitizations and MSRs are subject to prepayment risk, because a mortgage borrower has the option to prepay a mortgage loan at any time. Prepayment risk tends to increase when interest rates fall due to the benefits of refinancing. The expected income from these residual interests and MSRs is sensitive to movements in interest rates due to this sensitivity to mortgage prepayments.

The Company's residual interests and MSRs were $238.6 million and $61.8 million at April 30, 2001, respectively. They represent 5.8% and 1.5%, respectively, of total assets. Interest rate risk tends to increase when interest rates fall due to the benefits of refinancing. Since the future prepayment behavior of the mortgages is uncertain, the interest rate sensitivity of these residual interests can not be exactly determined.

Residual interests are recorded based on discounted cash flow models utilizing prepayment, credit losses and discount rate assumptions. Prepayment and loss assumptions are based on evaluation of the actual experience of the Company's servicing portfolio or on market rates on new portfolios, taking into consideration the current and expected interest rate environment and its expected impact on future prepayment and default rates. At April 30, 2001, the sensitivity of the current fair value of the residual interests to a 10% adverse change in prepayment rates would lower the fair value of the residuals by $24.3 million.

Mortgage servicing rights are recorded based on the present value of estimated future cash flows related to servicing loans utilizing market discount rates and anticipated prepayment speeds. The prepayment speeds are estimated using the Company's historical experience and third party market sources for fixed-rate mortgages with similar coupons and prepayment reports for comparable adjustable rate mortgage loans. At April 30, 2001, the sensitivity of the current fair value of MSRs to a 10% adverse change in prepayment rates would lower the fair value by $6.9 million.

See "Residual Interests" in the Notes to consolidated financial statements for further sensitivity analysis of the other assumptions and detailed explanations of the cash flow models used.

The Company's fixed and variable rate mortgage loans held for sale have minimal interest rate risk because the mortgage loans are sold in whole loan sales on the same day the mortgage loans are funded. Therefore, the Company has minimal investment in mortgage loans held for sale on the balance sheet. The Company is also exposed to interest rate risk associated with its mortgage loan origination commitments. These commitments to fund mortgage loans consist of fixed and variable rate loans that will be sold in the secondary market. The Company has commitments to fund mortgage loans of $1.5 billion at April 30, 2001 as long as there is no violation of any conditions established in the contracts. External market forces impact the probability of commitments being exercised, and therefore, total commitments out standing do not necessarily represent future cash requirements. The risk with these commitments to fund mortgage loans is that interest rates might rise between the time the customer locks in the interest rate on the loan and the time the loan is sold. In some instances, the Company will utilize forward contracts on FNMA mortgage-backed securities to reduce the interest rate risk related to its fixed rate origination commitments. It is the Company's policy to utilize these financial instruments only for the purpose of offsetting or reducing the risk of loss in earnings associated with a defined or quantified exposure. They are purchased from certain broker-dealer counterparties. If the counterparties do not fulfill their obligations, the Company may be exposed to default risk. As the risk of default depends on the creditworthiness of the counterparty, the Company's policy requires that such transactions may be entered into only with counterparties that are rated A or better (or an equivalent rating) by recognized rating agencies. As a matter of practice, the Company has limited the counterparties to major banks and financial institutions meeting such standards. All interest rate contracts

conform to the standard International Swaps and Derivatives Association, Inc. documentation.

Management believes the Company is not significantly exposed to interest rate risk related to its mortgage loans held for sale because they are generally short-term in nature, the portfolios are carried at the lower of cost or market and they are funded with short-term, variable rate debt. As a result, any change in interest rates would not materially impact the Company's consolidated pretax earnings. Likewise, the Company is not materially exposed to any additional risks related to the variable rate portfolio such as differences in interest rate indices used to re-price these assets and liabilities as a result of differences in timing or re-pricing characteristics.

The Company issues long-term debt related to certain acquisitions. When Senior notes will be issued, the Company may choose to hedge its interest rate risk related to the anticipated issuance of fixed rate term debt by utilizing treasury rate guarantees. The risk is that interest rates might rise between the time the Company is anticipating to issue the debt and the bond issuance date. At April 30, 2001, there were no hedges outstanding related to long-term debt. The Company's long-term debt at April 30, 2001 consists primarily of fixed-rate Senior notes; therefore, a change in interest rates would have no impact on consolidated pretax earnings.

The Company's broker-dealers hold interest bearing receivables from customers, brokers, dealers and clearing organizations which consist primarily of amounts due on margin and cash transactions and are generally short-term in nature. The Company funds these short-term assets with short-term variable rate liabilities from customers, brokers and dealers. Although there may be differences in the timing of the re-pricing related to these assets and liabilities, the Company believes it is not significantly exposed to interest rate risk in this area. As a result, any change in interest rate would not materially impact the Company's consolidated pretax earnings.

Foreign Exchange Rates. The operation of the Company's subsidiaries in international markets provides exposure to volatile movements in currency exchange rates. The currencies involved are the Canadian dollar, the Australian dollar and the British pound. International tax operations constituted approximately 1.6% of the Company's fiscal year 2001 consolidated pretax earnings, compared to 1.2% in fiscal 2000. As currency exchange rates change, translation of the financial results of International tax operations into U.S. dollars does not presently materially affect, and has not historically materially affected, the consolidated financial results of the Company, although such changes do affect the year-to-year comparability of the operating results of the international businesses.

The Company does not hedge translation risks because (1) cash flows from international operations are generally reinvested locally and (2) the minimal exposure to material volatility to reported earnings does not justify the cost.

The Company translates revenues and expenses related to its international operations at the average of exchange rates in effect during the period. The sensitivity analysis of fluctuation in foreign currency exchange rates compares the U.S. dollar

variance in using the actual exchange rates and using rates that have been adversely adjusted by 10%. The Company estimates that a 10% change in foreign exchange rates by itself would impact reported pretax earnings from continuing operations by approximately $672,000. Such impact represents approximately 8.8% of the pretax earnings of International tax operations for fiscal year 2001 and approximately .14% of the Company's pretax earnings for such year. In fiscal 2000, a 10% change in exchange rates would have impacted fiscal 2000 pretax earnings by approximately $425,000 or 9% of International tax operations pretax earnings and .10% of the Company's pretax earnings.

TRADING

The Company's trading portfolio is effected by changes in market rates/prices. The risk is the loss of earnings arising from adverse changes in the value of the trading portfolio. The Company's broker-dealer holds the trading portfolio at quoted market prices and such represents 1.1% of the Company's total assets. The market value of the Company's trading portfolio at April 30, 2001 was approximately $46.2 million. The impact of a 10% change in the market value of these investments would be approximately $4.6 million, or about 1.0% of consolidated pretax earnings. The Company manages its market price risk exposure in its equity-trading portfolio by taking positions only in those securities in which the broker-dealer makes a market and by minimizing its overnight positions to as close to zero as possible. With respect to its fixed-income securities, the Company manages its market price risk exposure by limiting concentration risk, maintaining minimum credit quality and limiting inventory to recent trading volumes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this item and listed at Item 14(a) 1 is contained in the Company's annual report to security holders for the fiscal year ended April 30, 2001, and is hereby incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There has been no change in the registrant's accountants during the two most recent fiscal years or any subsequent interim time period.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information called for by this item with respect to directors of the Company and with respect to compliance with Section 16(a) of the Securities Exchange Act is included under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," respectively, in the Company's definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2001, and in Item 4a "Executive Officers of the Registrant" in this report, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is contained in the Company`s definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2001, in the sections entitled "Directors' Meetings, Compensation and Committees" and "Compensation of Executive Officers," and is incorporated herein by reference, except that information contained in the section entitled "Compensation of Executive Officers" under the subtitles "Performance Graph" and "Compensation Committee Report on Executive Compensation" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information called for by this item is contained in the Company`s definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2001, in the section titled "Election of Directors" and in the section titled "Information Regarding Security Holders," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this item is contained in the Company`s definitive proxy statement filed pursuant to Regulation 14A not later than 120 days after April 30, 2001, in the section titled "Election of Directors," and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements

The following consolidated financial statements of H&R Block, Inc., and subsidiaries are incorporated by reference from the Company`s annual report to security holders for the fiscal year ended April 30, 2001:

2. Financial Statement Schedules

Report of PricewaterhouseCoopers LLP, Certified Public Accountants on Financial Statement Schedule for H&R Block, Inc.

Schedule II - Valuation and Qualifying Accounts

Schedules not filed herewith are either not applicable, the information is not material or the information is set forth in the financial statements or notes thereto.

3. Exhibits

3.1 Restated Articles of Incorporation of H&R Block, Inc., as amended, filed as Exhibit 3(b) to the Company`s quarterly report on Form 10-Q for the quarter ended October 31, 1996, are incorporated herein by reference.

3.2 Amended and Restated Bylaws of H&R Block, Inc., as amended, filed as Exhibit 3.1 to the Company`s quarterly report on Form 10-Q for the quarter ended October 31, 1999, are incorporated herein by reference.

4.1 Indenture dated as of October 20, 1997, among H&R Block, Inc., Block Financial Corporation and Bankers Trust Company, as Trustee, filed as Exhibit 4(a) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, is incorporated herein by reference.

4.2 First Supplemental Indenture, dated as of April 18, 2000, among H&R Block, Inc., Block Financial Corporation, Bankers Trust Company and the Bank of New York, filed as Exhibit 4(a) to the Company's current report on Form 8-K dated April 13, 2000, is incorporated herein by reference.

4.3 Form of 6 3/4% Senior Note due 2004 of Block Financial Corporation, filed on October 23, 1997 as Exhibit 2.2 to the Company's current report on Form 8-K, is incorporated herein by reference.

4.4 Form of 8.50% Senior Note due 2007 of Block Financial Corporation, filed as Exhibit 4(b) to the Company's current report on Form 8-K dated April 13, 2000, is incorporated herein by reference.

4.5 Copy of Rights Agreement dated March 25, 1998 between H&R Block, Inc. and ChaseMellon Shareholder Services, L.L.C., filed on July 22, 1998 as Exhibit 1 to the Company's Registration Statement on Form 8-A, is incorporated herein by reference.

4.6 Form of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(e) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.

4.7 Form of Certificate of Amendment of Certificate of Designation, Preferences and Rights of Participating Preferred Stock of H&R Block, Inc., filed as Exhibit 4(j) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1998 is incorporated by reference.

4.8 Form of Certificate of Designation, Preferences and Rights of Delayed Convertible Preferred Stock of H&R Block, Inc., filed as Exhibit 4(f) to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1995, is incorporated by reference.

10.1 The Company's 1993 Long-Term Executive Compensation Plan, as amended through September 8, 1999, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1999, is incorporated herein by reference.

10.2 The H&R Block Deferred Compensation Plan for Directors, as amended through March 9, 1994, filed as Exhibit 10.2 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2000, is incorporated by reference.

10.3 Amendment No. 2 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1997, is incorporated herein by reference.

10.4 Amendment No. 3 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1997, is incorporated herein by reference.

10.5 Amendment No. 4 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(d) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1997, is incorporated herein by reference.

10.6 Amendment No. 5 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10(c) to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1998, is incorporated herein by reference.

10.7 Amendment No. 6 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, is incorporated by reference.

10.8 Amendment No. 7 to H&R Block Deferred Compensation Plan for Directors, filed as Exhibit 10.2 to the Company's quarterly report on

Form 10-Q for the quarter ended January 31, 2001, is incorporated by reference.

10.9 The H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1999, is incorporated herein by reference.

10.10 Amendment No. 1 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 1999, is incorporated herein by reference.

10.11 Amendment No. 2 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1999, is incorporated herein by reference.

10.12 Amendment No. 3 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1999, is incorporated herein by reference.

10.13 Amendment No. 4 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, is incorporated herein by reference.

10.14 Amendment No. 5 to the H&R Block Deferred Compensation Plan for Executives, as Amended and Restated, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, is incorporated herein by reference.

10.15 The H&R Block Short-Term Incentive Plan, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, is incorporated herein by reference.

10.16 The Company's 1989 Stock Option Plan for Outside Directors, as amended, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1998, is incorporated herein by reference.

10.17 The H&R Block Stock Plan for Non-Employee Directors, filed as Exhibit 10(e) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1997, is incorporated herein by reference.

10.18 The H&R Block, Inc. 2000 Employee Stock Purchase Plan, filed as Appendix B to the Company's Schedule 14a on July 30, 2000, is incorporated herein by reference.

10.19 The H&R Block, Inc. Executive Survivor Plan (as Amended and Restated) filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 2000, is incorporated herein by reference.

10.20 Employment Agreement dated October 11, 1996, between the Company and Frank L. Salizzoni, filed as Exhibit 10(b) to the Company's quarterly report on Form 10-Q for the quarter ended October 31, 1996, is incorporated herein by reference.

10.21 Employment Agreement dated July 16, 1998, between the Company and Mark A. Ernst, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 1998, is incorporated herein by reference.

10.22 Amendment to Employment Agreement dated June 30, 2000, between HRB Management, Inc. and Mark A. Ernst, filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 31, 2000, is incorporated herein by reference.

10.23 Employment Agreement dated January 20, 1998, between H&R Block Tax Services, Inc, and Thomas L. Zimmerman, filed as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, is incorporated herein by reference.

10.24 Employment Agreement dated September 7, 1999, between HRB Management, Inc. and Jeffery Yabuki, filed as Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, is incorporated herein by reference.

10.25 Employment Agreement dated January 26, 2000, between HRB Management, Inc. and Frank J. Cotroneo, filed as Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended January 31, 2000, is incorporated herein by reference.

10.26 Senior Managing Director Agreement dated August 2, 1999, between RSM McGladrey, Inc. and Thomas G. Rotherham, filed as Exhibit 10.23 to the Company's annual report on Form 10-K for the fiscal year ended April 30, 2001, is incorporated herein by reference.

12 Computation of Ratio of Earnings to Fixed Charges for the five years ended April 30, 2001.

13 That portion of the annual report to security holders for the fiscal year ended April 30, 2001 which is expressly incorporated by reference in this filing.

Portions of such annual report to security holders not expressly incorporated by this reference in this filing are not deemed "filed" with the Commission.

21 Subsidiaries of the Company.

23 Consent of PricewaterhouseCoopers LLP, Certified Public Accountants.

(b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the fourth quarter of the year ended April 30, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

H&R BLOCK, INC.

June 20, 2001

By /s/ Mark A. Ernst
Mark A. Ernst
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title
/s/ Mark A. Ernst Mark A. Ernst	President, Chief Executive Officer and Director (principal executive officer)
/s/ G. Kenneth Baum G. Kenneth Baum	Director
/s/ Thomas M. Bloch Thomas M. Bloch	Director
Robert E. Davis	Director
/s/ Donna R. Ecton Donna R. Ecton	Director
/s/ Henry F. Frigon Henry F. Frigon	Director
/s/ Roger W. Hale Roger W. Hale	Director
/s/ Frank L. Salizzoni	Director

Frank L. Salizzoni

/s/ Louis W. Smith ------------------------------- Louis W. Smith	Director
/s/ Rayford Wilkins, Jr. ------------------------------- Rayford Wilkins, Jr.	Director

(Signed as to each on June 20, 2001)

/s/ Frank J. Cotroneo ------------------------------- Frank J. Cotroneo	Senior Vice President and Chief Financial Officer (principal financial officer)
/s/ Cheryl L. Givens ------------------------------- Cheryl L. Givens	Vice President and Corporate Controller (principal accounting officer)

(Signed as to each on June 20, 2001)

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
H&R Block, Inc.:

Our audits of the consolidated financial statements referred to in our report dated June 19, 2001 appearing in the 2001 Annual Report to Shareholders of H&R Block, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Kansas City, Missouri
June 19, 2001

H&R BLOCK, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED APRIL 30, 2001, 2000 AND 1999

Description	Balance Beginning Of Period	Additions: Charged to Costs and Expenses	Additions: Charged To Other	Deductions	Balance At End Of Period
Allowance for Doubtful Accounts - deducted from accounts receivable in the balance sheet					
2001	$50,361,000	$84,422,000	--	$85,966,000	$48,817,000
2000	$61,872,000	$51,719,000	--	$63,230,000	$50,361,000
1999	$45,314,000	$71,662,000	--	$55,104,000	$61,872,000

EXHIBIT 12

H&R BLOCK, INC.
COMPUTATION OF THE RATIO OF EARNINGS TO FIXED CHARGES
(AMOUNTS IN THOUSANDS)

	2001	2000	1999	1998	1997
Pretax income from continuing operations (a)	$473,078	$412,266	$383,541	$296,433	$232,083
FIXED CHARGES:					
Interest expense	242,551	155,027	69,338	38,899	608
Interest portion of net rent expense (b)	52,108	45,274	33,218	28,248	25,998
Total fixed charges	294,659	200,301	102,556	67,147	26,606
Earnings before income taxes and fixed charges	$767,737	$612,567	$486,097	$363,580	$258,689
Ratio of earnings to fixed charges (c)	2.6	3.1	4.7	5.4	9.7

(a) Pretax income from continuing operations is shown with CompuServe Corporation and the Credit Card Segment as Discontinued Operations for all years presented.

(b) One-third of net rent expense is the portion deemed representative of the interest factor.

(c) The decrease in the ratio of earnings to fixed charges in 1998 is primarily attributable to the acquisition of Option One Mortgage Corporation on June 17, 1997. Without the interest expense incurred on the long-term debt issued to acquire Option One and the interest expense on mortgage loan borrowings the ratio of earnings to fixed charges would have been 10.0.

EXHIBIT 13

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

GENERAL

OVERVIEW OF REPORTABLE OPERATING SEGMENTS

The principal business activity of the Company's operating subsidiaries is providing tax and financial services to the general public. The Company operates in the following reportable segments:

U.S. tax operations: This segment primarily consists of the Company's traditional tax business - which served 16.9 million taxpayers in fiscal year 2001, more than any other company. This segment is primarily engaged in providing tax return preparation, filing, and related services in the United States. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. This segment also participates in the refund anticipation loan products offered by a third-party lending institution to tax clients. This segment includes the Company's tax preparation software - Kiplinger TaxCut(R) from H&R Block, other personal productivity software, online tax preparation through a tax preparer (whereby the client fills out an online tax organizer and sends it to a tax preparer for preparation), online do-it-yourself-tax preparation, online professional tax review and online tax advice through the hrblock.com website.

International tax operations: This segment is primarily engaged in providing local tax return preparation, filing and related services in Canada, Australia and the United Kingdom. In addition, there are franchise offices in 9 countries that prepare U.S. tax returns for U.S. citizens living abroad. This segment served 2.3 million taxpayers in fiscal 2001. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices.

Mortgage operations: This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans. This segment mainly offers, through a network of mortgage brokers, a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria. Conforming mortgage loan products, as well as the same flexible product line available through brokers, are offered through H&R Block Financial Centers and H&R Block Mortgage Corporation retail offices.

Investment services: This segment is primarily engaged in offering full service investment advice through H&R Block Financial Advisors, Inc., a full-service discount securities broker. Financial planning and investment advice are offered through H&R Block Financial Centers, H&R Block Financial Advisors offices and tax offices, and stocks, bonds, mutual funds and other products and securities are offered through a nationwide network of registered representatives, at the same locations.

Business services: This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals.

RESULTS OF OPERATIONS

NEW ACCOUNTING STANDARDS

In the fourth quarter of fiscal 2001, the Company elected the early adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 ("SFAS 133") and Statement of Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 138"). SFAS 133 and 138 establish accounting and reporting standards for derivative and hedging activities, and requires companies to record derivative instruments as assets or liabilities, measured at fair value. The Company has identified derivative instruments related to certain of its commitments to originate residential mortgage loans.

The Company originates residential mortgage loans with the intention of selling these loans. These commitments to fund loans are freestanding derivative instruments and do not qualify for hedge accounting treatment and, therefore, the fair value adjustments are recorded in the consolidated statement of earnings. The commitments that qualify as derivative instruments totaled $252.6 million. The transition adjustment for adoption of SFAS 133 and SFAS 138 of $4.4

million, net of taxes, is shown as the cumulative effect of a change in accounting principle in the consolidated statement of earnings for the year ended April 30, 2001.

Currently, there are ongoing discussions surrounding the implementation of SFAS 133 by the Financial Accounting Standards Board's Derivative Implementation Group. If the definition of derivative instruments is altered, this change may impact the Company's transition amounts and subsequent reported operating results.

In December 1999, the Securities and Exchange Commission ("SEC") issued SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to

revenue recognition in financial statements. The Company implemented SAB 101 in the fourth quarter of fiscal 2001. The implementation of SAB 101 had no impact on annual revenues and earnings, however, due to the seasonal influences of the business, the implementation resulted in a shift of revenues and earnings between the Company's third and fourth quarters. As a result, the Company has adjusted its third quarter of fiscal year 2001 to lower revenues and net earnings to $656.0 million and $4.5 million, respectively, included in Quarterly Financial Data in the notes to consolidated financial statements.

In fiscal year 2001, the Company adopted Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 140 is a replacement of Statement of Financial Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain new disclosures, but carries over most of the SFAS 125 provisions without reconsideration. The adoption of SFAS 140 had no effect on the consolidated financial statements.

In July 2000, the Emerging Issues Task Force reached a consensus on Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets ("EITF 99-20"). EITF 99-20 addresses how the holder of beneficial interests should recognize cash flows on the date of the transaction and how interest income is recognized over the life of the interests. EITF 99-20 will be effective for the Company in the first quarter of fiscal year 2002. The Company has not yet determined the effect of EITF 99-20 on the consolidated financial statements.

All amounts in the following tables are in thousands.

FISCAL 2001 COMPARED TO FISCAL 2000

CONSOLIDATED H&R BLOCK, INC.	Year Ended April 30		Variance Better (worse) than	
	2001	2000	$	%
Revenues	$ 3,001,575	$ 2,451,943	$ 549,632	22.4%
Pretax earnings	473,078	412,266	60,812	14.8%
Net earnings	$ 281,162	$ 251,895	$ 29,267	11.6%

Consolidated revenues for the year increased 22.4% to $3.0 billion compared to $2.5 billion in the prior year due primarily to U.S. tax operations, Mortgage operations and Investment services. The increase related to Investments services is due to the inclusion of a full twelve months of operations in fiscal 2001 compared to only five months in fiscal 2000.

Pretax earnings of $473.1 million increased 14.8% compared to last year due to better performance within U.S. tax operations and Mortgage operations, which were partially offset by lesser performance within Investment services and higher interest expense on acquisition debt.

Net earnings increased 11.6% to $281.2 million, or $3.04 per diluted share, from $251.9 million, or $2.55 per diluted share in fiscal 2000. The Company's fiscal 2001 results include two one-time items -- the implementation of SFAS 133, an additional $.05 per diluted share, and an accrual for settlement of litigation brought against the Company, a reduction of $.11 per diluted share. Excluding the effects of these one-time items, diluted earnings per share was $3.10, a 21.6% increase over fiscal 2000.

The effective tax rate increased from 38.9% to 41.5% this year as a result of a full year of non-deductible intangible asset and goodwill amortization resulting from the acquisition of OLDE Financial Corporation ("OLDE"), compared with five months of amortization last year.

The Company's performance as measured by earnings before interest (including interest expense on acquisition debt, investment income and interest allocated to operating business units), taxes, depreciation and amortization ("EBITDA") improved $189.2 million to $787.2 million compared to $598.0 million in the prior year. EBITDA is utilized by management to evaluate the performance of its operating segments because many of its segments reflect substantial amortization of acquired intangible assets and goodwill resulting from recent acquisitions. Management believes EBITDA is a good measure of cash flow generation because the Company has not historically been capital intensive and it also removes the effects of purchase accounting. The calculation may not be comparable to the calculation of EBITDA by other companies.

In addition, the Company continues to measure its performance based on the calculation of earnings excluding the after-tax impact of amortization of acquired intangible assets and goodwill. The pretax amortization expense of acquired intangible assets and goodwill increased 57.2% in fiscal 2001 to $104.3 million from $66.3 million in fiscal 2000. Net earnings from continuing operations before change in accounting

principle, excluding the after-tax impact of this expense, was $362.2 million, or $3.91 per diluted share in 2001, compared to $304.4 million, or $3.08 per diluted share in the prior year, increases of 19.0% and 26.9%, respectively.

An analysis of operations by reportable operating segment follows.

U.S. TAX OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2001	2000	$	%
Tax preparation and related fees	$ 1,254,494	$ 1,128,891	$ 125,603	11.1%
Royalties	141,258	128,870	12,388	9.6%
RAL participation fees	133,710	89,761	43,949	49.0%
Software sales	58,676	39,546	19,130	48.4%
Other	65,985	44,017	21,968	49.9%
Total revenues	1,654,123	1,431,085	223,038	15.6%
Compensation & benefits	612,538	550,287	(62,251)	-11.3%
Occupancy & equipment	187,328	180,110	(7,218)	-4.0%
Depreciation & amortization	70,383	66,522	(3,861)	-5.8%
Cost of software sales	34,286	22,430	(11,856)	-52.9%
Bad debt expense	55,394	32,541	(22,853)	-70.2%
Marketing & advertising	92,012	96,922	4,910	5.1%
Other	168,668	162,281	(6,387)	-3.9%
Total expenses	1,220,609	1,111,093	(109,516)	-9.9%

Pretax earnings	$ 433,514	$ 319,992	$ 113,522	35.5%

Revenues increased 15.6% to $1.7 billion for the year ended April 30, 2001. The increase is primarily attributable to higher tax preparation and related fees that are primarily the result of increases in the average fees per client. The increase in the average fees per client in tax offices is due to a planned price increase, a shift in our customer mix to those with more complex returns and the reduction of price discounting at the point of sale. The average fee per client served increased 11.4% to $118.17. The number of clients served in company-owned operations increased 3.8% to 11.7 million due almost entirely to e-commerce clients. In addition, the number of tax returns filed electronically increased 8.7% in company- owned operations, resulting in the electronic filing of 84.4% of all returns processed in company-owned operations. Revenues from participations in Refund Anticipation Loans ("RALs") increased $43.9 million over the prior year. This increase is a result of both increases in the average revenue per RAL of 43.9% and the number of RALs of 2.7%. The Company participates with Household Tax Masters in offering RALs to customers through tax offices (49.9% in company-owned offices and 25% in major franchise offices). Revenue from participation interests is calculated as our percentage participation times the fee that the customer pays for the RAL. The fee that the customer pays for the RAL is set by Household Tax Masters and is based on the dollar amount of the RAL. The increase in pricing is due to adjustments made to offset the increased risk of bad debt resulting from the IRS's heightened review of returns containing earned income tax credits. Also contributing to the increase in revenues were software sales, which increased 48.4% due mainly to a change in our pricing strategy that lowered our retail price per federal unit, but included an additional fee for state products. In addition, royalties increased 9.6% to $141.3 million due to pricing increases and a .2% increase in clients served by franchises.

Pretax earnings increased 35.5% to $433.5 million compared to $320.0 million last year. The increase is largely due to the increase in revenues as well as effective expense control. As a result of expense control, the segment's operating margin improved to 26.2% compared to 22.4% in the prior year. EBITDA increased 31.2% to $507.1 million in fiscal 2001.

INTERNATIONAL TAX OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2001	2000	$	%
Canada	$ 57,174	$ 61,102	$ (3,928)	-6.4%
Australia	17,939	17,573	366	2.1%
United Kingdom	1,763	1,595	168	10.5%
Overseas franchises	2,692	1,248	1,444	115.7%
Total revenues	79,568	81,518	(1,950)	-2.4%
Canada	4,962	3,291	1,671	50.8%
Australia	3,472	3,189	283	8.9%
United Kingdom	(1,602)	(1,958)	356	18.2%
Overseas franchises	846	347	499	143.8%
Pretax earnings	$ 7,678	$ 4,869	$ 2,809	57.7%

International revenues decreased by 2.4% to $79.6 million from $81.5 million last year. The decrease was driven primarily by unfavorable changes in currency exchange rates and management's decision to reduce the non-profitable early discounted return business in Canada.

Pretax earnings increased 57.7% to $7.7 million from $4.9 million last year in spite of the unfavorable changes in currency exchange rates. The improved performance in Canada is primarily attributable to business management and effective cost control mainly in marketing, labor and supplies.

The Australian results were negatively affected by the unfavorable change in the currency exchange rates as the pretax results improved by 26.6% in Australian currency. These results were driven primarily by a 6.7% increase in the number of returns processed.

The United Kingdom pretax loss decreased by 18.2% primarily reflecting ongoing efforts to close non-profitable offices while increasing business volume.

The Overseas franchises improvement of 143.8% is attributable to a 51% increase in return volume, primarily in Puerto Rico, as a child tax credit program was introduced this year.

International tax operations' EBITDA improved 22.4% to $12.7 million in fiscal year 2001.

MORTGAGE OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2001	2000	$	%
Interest income	$ 47,715	$ 92,155	$(44,440)	-48.2%
Loan servicing income	110,222	62,510	47,712	76.3%
Gain on sale of mortgage loans	256,304	199,608	56,696	28.4%
Other	1,561	1,156	405	35.0%
Total revenues	415,802	355,429	60,373	17.0%
Compensation & benefits	128,887	103,049	(25,838)	-25.1%
Variable servicing & processing	34,620	20,338	(14,282)	-70.2%
Occupancy & equipment	23,690	15,462	(8,228)	-53.2%
Interest expense	13,729	56,988	43,259	75.9%
Bad debt expense	16,153	8,808	(7,345)	-83.4%
Amortization of acquisition intangibles	13,577	13,760	183	1.3%
Other	46,110	48,450	2,340	4.8%
Total expenses	276,766	266,855	(9,911)	-3.7%
Pretax earnings	$ 139,036	$ 88,574	$ 50,462	57.0%

Revenues increased 17.0% to $415.8 million in fiscal 2001 compared with fiscal 2000. The increase is primarily due to an increase in production volume, a favorable secondary market environment and a larger servicing portfolio, which was partially offset by lower interest income. Revenues related to the sale of mortgage loans increased $56.7 million over the prior year resulting from favorable secondary market pricing on mortgage loan sales. During the twelve months ending April 30, 2001 the Company originated $6.5 billion in mortgage loans compared to $5.7 billion last year. The total execution price representing gain on sale of mortgage loans for the fiscal year ended April 30, 2001 was 3.71% compared to 3.73% for the fiscal year ended April 30, 2000. Servicing revenues increased 76.3% over the prior year. The increase is principally attributable to a higher loan servicing portfolio balance, increased servicing operations efficiencies and an increase in the collection of borrower late fees. The average number of loans being serviced increased by 67,112 to an average portfolio balance for the year of $15.9 billion compared to $8.8 billion last year. The increase in revenues was partially offset by the winding down of certain mortgage activities during fiscal year 2001.

Pretax earnings increased $50.5 million or 57.0% to $139.0 million for the year ended April 30, 2001. The improved performance is primarily due to the increased revenues. The decrease in both interest income and interest expense is a result of the move to off-balance sheet arrangements for the funding of mortgage loans. Utilizing the off-balance sheet arrangements, the Company essentially no longer incurs short-term borrowings to fund its mortgage loans. Mortgage operations' operating margin increased to 33.4% from 24.9% in the prior year. The move to off-balance sheet arrangements accounted for 520 basis points of the margin improvement.

Mortgage operations benefited from cross-sell initiatives in 2001, as 5.4% of all mortgage loans originated came from tax clients. EBITDA for Mortgage operations increased 48.6% to $161.8 million compared to $108.9 million last year.

INVESTMENT SERVICES	Year Ended April 30		Variance Better (worse) than	
	2001	2000	$	%
Commission & fee income	$ 241,494	$ 177,370	$ 64,124	36.2%
Margin interest income	201,793	79,416	122,377	154.1%
Other	29,138	11,590	17,548	151.4%
Total revenues	472,425	268,376	204,049	76.0%
Compensation & benefits	161,560	87,590	(73,970)	-84.5%
Interest expense	106,303	41,563	(64,740)	-155.8%
Occupancy & equipment	30,048	12,551	(17,497)	-139.4%
Depreciation & amortization	19,166	6,058	(13,108)	-216.4%
Commission, floor brokerage & fees	10,103	15,553	5,450	35.0%
Amortization of acquisition intangibles	47,531	19,605	(27,926)	-142.4%
Other	85,025	44,230	(40,795)	-92.2%
Total expenses	459,736	227,150	(232,586)	-102.4%
Pretax earnings	$ 12,689	$ 41,226	$ (28,537)	-69.2%

Investment services revenues for the year increased 76.0% to $472.4 million from $268.4 million. The increase is attributable primarily to the acquisition of OLDE, the parent company of H&R Block Financial Advisors, Inc. ("HRBFA," formerly OLDE Discount Corporation) on December 1, 1999, and reflects a full twelve months of revenues for the acquired companies in fiscal year 2001 as compared with only five months of revenues in fiscal year 2000.

Pretax earnings for this segment decreased by 69.2% to $12.7 million from $41.2 million earned last year. The decrease in pretax earnings is primarily attributable to lower trading volume, an increase in the amortization of acquired intangible assets and a litigation settlement. In the former case, there were twelve months of acquired intangible asset amortization in fiscal year 2001, whereas in fiscal 2000 there were only five months. In the latter case, the Company agreed to settle a class action lawsuit filed against OLDE. The Company denies liability with respect to these claims, but has determined to settle the matter to avoid the costs, expenses, and distractions of further litigation. Under the preliminarily approved settlement, which is subject to final court approval, HRBFA will distribute $21 million to a fund to be used to pay claims of class members, attorneys' fees and the administrative expenses relating to the settlement. The Company accrued $16.8 million related to this settlement in fiscal 2001.

In April 2001 in an effort to improve profitability due to weak market conditions, Investment services reduced its number of associates by 6%, which resulted in a one-time charge of $1.6 million related to severance costs. Severance charges for the full fiscal year totaled $2.7 million.

Trading Volume. In line with the market's general decline, the Company's average trading volumes have fallen by more than 46% as measured by average trades per day. HRBFA's trading volume has been historically linked with the overall performance of the market indices, especially the Nasdaq.

Margin Lending. Impacted by market performance, volatility and investor uncertainty, margin balances had fallen dramatically from $2.8 billion at the end of fiscal 2000 to $1.3 billion at the end of fiscal 2001. This trend is consistent with the rest of the industry and reflects the selling that occurred as the market dropped. However, average margin balances for the five months of fiscal 2000 compared to the twelve months of fiscal year 2001 were similar, $2.5 billion compared with $2.4 billion. Net interest margin, the blended rate of interest earned on outstanding margin balances less the cost of all sources funding margin loans, improved from 2.5% to 2.9% as reliance on higher-cost funding sources decreased.

Principal Trading. Decimalization replaced fractional trading for listed equities on January 29 and for Nasdaq equities on April 9. The impact of decimalization has reduced the dealer spread between bid and ask prices, reducing revenue opportunities. Overall principal trading revenue, including fixed income trading and unit investment trusts, increased $16.8 million to $63.3 million in fiscal 2001 from the previous fiscal year.

Continuing efforts to become an advisory-based relationship provider, a number of key initiatives occurred despite the difficult financial and market environment. The Company expanded its product line to include annuities and expanded online capabilities. Under development are cash management capabilities and fee-based services. The Express IRA product was launched in six tax services regions, introducing new technology, sales activities, service functions and training across the tax services and HRBFA organizations. Another key cross-organization initiative was the creation and testing of the TPFA (Tax Preparer Financial Advisor) program. In its pilot year, TPFAs, through tax season, cross-sold 3,000 accounts. In addition, tax client referrals to HRBFA resulted in approximately 15,000 new accounts. Finally, as of May 2001, 55,068 client tax returns were cross-sold to tax services from HRBFA. The Investment services segment has yet to experience significant revenues from these initiatives. Expenses for the development of cross-sell marketing systems also impacted the decline in pretax earnings.

Investment services' EBITDA increased 16.7% to $78.1 million over the prior year.

BUSINESS SERVICES	Year Ended April 30		Variance Better (worse) than	
	2001	2000	$	%
Accounting, consulting & tax	$ 319,750	$ 268,568	$ 51,182	19.1%
Product sales	20,960	16,533	4,427	26.8%
Management fee income	11,467	17,341	(5,874)	-33.9%
Other	21,643	8,425	13,218	156.9%

Total revenues	373,820	310,867	62,953	20.3%
Compensation & benefits	240,660	182,592	(58,068)	-31.8%
Occupancy & equipment	24,792	28,444	3,652	12.8%
Amortization of acquisition intangibles	31,577	22,786	(8,791)	-38.6%
Other	59,746	59,934	188	0.3%
Total expenses	356,775	293,756	(63,019)	-21.5%
Pretax earnings	$ 17,045	$ 17,111	$ (66)	-0.4%

Business services revenues of $373.8 million increased 20.3% from $310.9 million in the prior year. The increase in revenues over the prior year is attributable to: (a) the inclusion of RSM McGladrey for twelve months as compared to nine months for the previous year ($43.8 million); (b) growth in services including extended tax consulting services and insurance alliance revenues ($44.7 million) and (c) services from newly acquired firms, net of the lost revenue from sold offices. The increases in these areas were offset by a decrease in revenue from technology consulting fees associated with year 2000 engagements, the decision to close certain unprofitable technology consulting practices, and the change in organizational structure that affected attest revenues discussed in the next paragraph.

As of April 30, 2001, the operations of five of the original regional accounting firms acquired had been merged into RSM McGladrey, the national accounting firm that acquired substantially all of the non-attest assets of McGladrey & Pullen, LLP on August 2, 1999. Prior to the mergers, for certain of the regional accounting firms, the Company was required, in accordance with Emerging Issues Task Force No. 97-2 - "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements," to consolidate revenues and expenses from the non-attest business that the Company owned and the attest business of firms located in Kansas City, Chicago, Baltimore and Philadelphia that the Company did not own, but for whom it performed management services. Revenues are no longer consolidated as a result of the change in organizational structure.

Pretax earnings were approximately equivalent to the prior year. This is primarily due to a $3.5 million loss from RSM McGladrey during the first quarter of fiscal 2001 that was not experienced in the prior year due to the timing of the acquisition. This loss was offset by earnings from newly acquired firms and net growth from the core business. EBITDA increased 20.9% to $55.8 million from $46.2 million in fiscal 2000.

UNALLOCATED CORPORATE	Year Ended April 30		Variance Better (worse) than	
	2001	2000	$	%
Total revenues	$ 5,837	$ 4,668	$ 1,169	25.0%
Compensation & benefits	14,376	6,114	(8,262)	-135.1%
Interest expense	11,660	3,137	(8,523)	-271.7%
Marketing & advertising	5,237	693	(4,544)	-655.7%
Other	12,091	17,200	5,109	29.7%

Total expenses	43,364	27,144	(16,220)	-59.8%
Pretax loss	$(37,527)	$(22,476)	$ (15,051)	-67.0%
Interest expense on acquisition debt	$ 98,759	$ 56,118	$ (42,641)	-76.0%

The unallocated corporate pretax loss for the year increased 67.0% to $37.5 million from $22.5 million in the comparable period last year. The increase is primarily a result of higher employee costs and interest expense related to borrowings for funding of operations, including share repurchases.

Interest expense on acquisition debt increased $42.6 million in fiscal 2001 compared to the prior year. The increase is primarily attributable to a full year of financing costs associated with the acquisition of OLDE in December 1999 compared with only five months last year.

FISCAL 2000 COMPARED TO FISCAL 1999

SIGNIFICANT EVENTS IN FISCAL 2000

On December 1, 1999, the Company completed the purchase of all the issued and outstanding shares of capital stock of OLDE, parent of H&R Block Financial Advisors, Inc. (formerly OLDE Discount Corporation) a leading discount broker in the United States. HRBFA offers brokerage and other financial services through a nationwide network of approximately 1,400 registered representatives located in 105 OLDE offices and, since the acquisition, in 93 H&R Block Financial Centers. The purchase price was $850 million in cash plus net tangible book value payments of $48.5 million. The purchase agreement also provides for possible future contingent consideration, payable for up to five years after the acquisition based upon revenues generated from certain online brokerage services and such consideration will be treated as purchase price when paid. The transaction was accounted for as a purchase, and accordingly, OLDE's results are included since the date of acquisition.

On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, completed the purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP. McGladrey & Pullen, LLP was the nation's seventh largest accounting and consulting firm with more than 70 offices located primarily in the Eastern, Midwestern, Northern and Southwestern United States. This acquisition significantly increased the size of the

Business services segment, new in 1999. The purchase price was $240 million in cash payments over four years and the assumption of certain pension liabilities with a present value of $52.7 million. The purchase agreement also provides for possible future contingent consideration based on a calculation of earnings in years two, three and four after the acquisition and such consideration will be treated as purchase price when paid. In addition, the Company made cash payments of $65.5 million for outstanding accounts receivable and work-in-process that have been repaid to the Company. The acquisition was accounted for as a purchase, and accordingly, results are included since the date of acquisition.

CONSOLIDATED H&R BLOCK, INC.	Year Ended April 30		Variance Better (worse) than	
	2000	1999	$	%
Revenues	$ 2,451,943	$ 1,644,665	$ 807,278	49.1%

Pretax earnings	412,266	383,541	28,725	7.5%
Net earnings	$ 251,895	$ 215,366	$ 36,529	17.0%

Revenues increased 49.1% to $2.5 billion compared to $1.6 billion in fiscal 1999. Net earnings from continuing operations increased 5.9% to $251.9 million from $237.8 million in the prior year. Basic net earnings per share from continuing operations increased to $2.57 from $2.38 in 1999. Diluted net earnings per share from continuing operations increased to $2.55 from $2.36. EBITDA increased 36.3% to $598.0 million from $438.8 million in fiscal 1999.

The pretax amortization expense of acquired intangible assets increased 172.2% in fiscal 2000 to $66.3 million from $24.4 million in fiscal 1999. Excluding the after-tax impact of this expense, net earnings from continuing operations were $304.4 million, or $3.08 per diluted share in fiscal 2000, compared to $254.2 million, or $2.52 per diluted share the prior year, increases of 19.7% and 22.2%, respectively.

The effective tax rate for fiscal 2000 increased to 38.9% from 38.0% in fiscal 1999. The increase is primarily due to non-deductible amortization of goodwill and other intangible assets related to the OLDE acquisition.

An analysis of operations by reportable operating segment follows.

U.S. TAX OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2000	1999	$	%
Tax preparation and related fees	$ 1,128,891	$ 989,350	$ 139,541	14.1%
Royalties	128,870	114,902	13,968	12.2%
RAL participation fees	89,761	90,070	(309)	-0.3%
Software sales	39,546	33,486	6,060	18.1%
Other	44,017	30,461	13,556	44.5%
Total revenues	1,431,085	1,258,269	172,816	13.7%
Compensation & benefits	550,287	472,443	(77,844)	-16.5%
Occupancy & equipment	180,110	154,082	(26,028)	-16.9%
Depreciation & amortization	66,522	49,381	(17,141)	-34.7%
Cost of software sales	22,430	17,266	(5,164)	-29.9%
Bad debt expense	32,541	56,116	23,575	42.0%
Marketing & advertising	96,922	71,512	(25,410)	-35.5%
Other	162,281	123,356	(38,925)	-31.6%
Total expenses	1,111,093	944,156	(166,937)	-17.7%
Pretax earnings	$ 319,992	$ 314,113	$ 5,879	1.9%

Revenues increased 13.7% to $1.4 billion from $1.3 billion in fiscal 1999. Combined tax preparation and related fees generated from clients visiting a tax office increased $139.5 million, or 14.1%, due to pricing increases and a 2.2% increase in clients served in company-owned offices. Fees associated with participation interests in RALs decreased 0.3% to $89.8 million due to lower pricing as a result of the Internal Revenue Service re-instatement of the Debt Indicator Program and a pilot program offering RALs with no bank charge in certain geographical areas. These two factors decreased the average revenue per RAL by 22.8%. Royalty revenues increased 12.2% to $128.9 million due to pricing increases and a 2.6% increase in clients served by franchises. Revenues from software sales increased $6.1 million, or 18.1%, due to an increase in electronic filing fees generated through the clients' use of the Company's tax preparation software as well as an increase in the number of software units sold.

Operating earnings increased 1.9% to $320.0 million from $314.1 million in 1999. The pretax margin decreased to 22.4% from 25.0% in 1999, due to higher spending related to new initiatives and overstaffing in tax offices in April due to anticipated client demand that did not occur. New initiatives included the start-up of e-commerce services, the offer of RALs with no bank charge, and the new prepaid spending card program, Refund Rewards(TM).

EBITDA was $386.5 million for fiscal 2000, up from $363.5 million in 1999.

INTERNATIONAL TAX OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2000	1999	$	%
Canada	$ 61,102	$ 58,504	$ 2,598	4.4%
Australia	17,573	14,540	3,033	20.9%
United Kingdom	1,595	692	903	130.5%
Overseas franchises	1,248	978	270	27.6%
Total revenues	81,518	74,714	6,804	9.1%
Canada	3,291	2,450	841	34.3%
Australia	3,189	2,267	922	40.7%
United Kingdom	(1,958)	(2,559)	601	23.5%
Overseas franchises	347	356	(9)	-2.5%
Pretax earnings	$ 4,869	$ 2,514	$ 2,355	93.7%

Revenues increased 9.1% to $81.5 million from $74.7 million in 1999. Pretax earnings increased 93.7% to $4.9 million from $2.5 million in 1999, and the pretax margin increased to 6.0% from 3.4% in 1999. The increase in pretax earnings is due to better results in Australia and Canada. EBITDA was $10.4 million, up from $8.3 million in the prior year.

Australia's revenues increased 20.9% to $17.6 million from $14.5 million. Pretax earnings increased 40.7% to $3.2 million from $2.3 million. These results reflect the strong Australian dollar. The increases are due to a 12.7% increase in volume in company-owned offices, along with an increase in the pretax margin to 18.1% from 15.6% in 1999.

Canada's revenues increased 4.4% to $61.1 million from $58.5 million in 1999. Pretax earnings increased 34.3% to $3.3 million from $2.5 million. The number of regular returns prepared in company-owned offices decreased 8.2%, while the number of cash back returns prepared increased 7.6%. The improvement in pretax earnings is primarily due to the lowering of certain expenses from closing less profitable offices and improved expense control.

Revenues in the United Kingdom increased 130.5% to $1.6 million from $692 thousand in fiscal 1999. Pretax losses decreased 23.5% to $2.0 million from $2.6 million in 1999. The improved results were primarily due to a March 1999 acquisition and increased revenue in existing tax offices, leveraged over certain fixed costs.

MORTGAGE OPERATIONS	Year Ended April 30		Variance Better (worse) than	
	2000	1999	$	%
Interest income	$ 92,155	$ 85,160	$ 6,995	8.2%
Loan servicing income	62,510	38,681	23,829	61.6%
Gain on sale of mortgage loans	199,608	130,337	69,271	53.2%
Other	1,156	1,766	(610)	-34.5%
Total revenues	355,429	255,944	99,485	38.9%
Compensation & benefits	103,049	64,354	(38,695)	-60.1%
Variable servicing & processing	20,338	14,400	(5,938)	-41.2%
Occupancy & equipment	15,462	10,053	(5,409)	-53.8%
Interest expense	56,988	52,018	(4,970)	-9.6%
Bad debt expense	8,808	13,171	4,363	33.1%
Amortization of acquisition intangibles	13,760	12,574	(1,186)	-9.4%
Other	48,450	26,625	(21,825)	-82.0%
Total expenses	266,855	193,195	(73,660)	-38.1%
Pretax earnings	$ 88,574	$ 62,749	$ 25,825	41.2%

Revenues increased 38.9% to $355.4 million from $255.9 million in 1999. Pretax earnings increased 41.2% to $88.6 million from $62.7 million. Option One reported revenues of $322.0 million, up 45.3% from $221.6 million in the prior year. Pretax earnings increased 49.9% to $95.0 million from $63.4 million in 1999. Option One originated $5.7 billion of loans in fiscal 2000, up 58.0% from $3.6 billion in 1999, and sold or securitized $6.1 billion of loans, up 73.7% from $3.5 billion in 1999. At April 30, 2000, Option One's servicing portfolio was 114,300 loans totaling $11.3 billion, up from 65,300 loans totaling $6.5 billion at April 30, 1999. The increase in loans serviced, originated and sold drove Option One's revenue increase. Although certain expenses increased as Option One pursued growth plans, the increase in revenues and contribution margins exceeded the higher expenses and led to the increase in pretax earnings. EBITDA increased to $108.9 million from $78.5 million in 1999.

INVESTMENT SERVICES	Year Ended April 30		Variance Better (worse) than	
	2000	1999	$	%
Commission & fee income	$ 177,370	$ 3,859	$ 173,511	-
Margin interest income	79,416	-	79,416	-
Other	11,590	130	11,460	-
Total revenues	268,376	3,989	264,387	-
Compensation & benefits	87,590	973	(86,617)	-
Interest expense	41,563	-	(41,563)	-
Occupancy & equipment	12,551	195	(12,356)	-
Depreciation & amortization	6,058	149	(5,909)	-
Commission, floor brokerage & fees	15,553	3,106	(12,447)	-400.7%
Amortization of acquisition intangibles	19,605	55	(19,550)	-

Other	44,230	1,134	(43,096)	-
Total expenses	227,150	5,612	(221,538)	-
Pretax earnings (loss)	$ 41,226	$ (1,623)	$ 42,849	-

Revenues increased $264.4 million to $268.4 million from $4.0 million in 1999. Pretax earnings increased $42.8 million to $41.2 million from a loss of $1.6 million last year. The increase in revenues and pretax earnings is due to the first-time inclusion of OLDE's financial results for five months in fiscal 2000. EBITDA increased to $66.9 million from a negative $1.4 million in 1999.

Since the acquisition date, OLDE contributed revenues of $253.9 million and pretax earnings of $66.8 million, driven by high market trading volume yielding over 1.8 million trades. At April 30, 2000, OLDE had 658,000 active accounts and managed client assets of $44 billion.

BUSINESS SERVICES	Year Ended April 30		Variance Better (worse) than	
	2000	1999	$	%
Accounting, consulting & tax	$ 268,568	$ 43,369	$ 225,199	519.3%
Product sales	16,533	3,703	12,830	346.5%
Management fee income	17,341	183	17,158	-
Other	8,425	86	8,339	-
Total revenues	310,867	47,341	263,526	556.7%
Compensation & benefits	182,592	29,903	(152,689)	-510.6%
Occupancy & equipment	28,444	2,815	(25,629)	-910.4%
Amortization of acquisition intangibles	22,786	2,845	(19,941)	-700.9%
Other	59,934	4,657	(55,277)	-
Total expenses	293,756	40,220	(253,536)	-630.4%
Pretax earnings	$ 17,111	$ 7,121	$ 9,990	140.3%

Revenues increased to $310.9 million from $47.3 million in 1999. Pretax earnings increased 140.3% to $17.1 million from $7.1 million last year. The increase in both revenues and pretax earnings is largely due to the first-time inclusion of RSM McGladrey financial results for nine months in fiscal 2000, and the inclusion for the entire year in fiscal 2000 of the results from six regional accounting firms acquired at various times during fiscal 1999. EBITDA increased to $46.2 million from $10.5 million last year.

UNALLOCATED CORPORATE	Year Ended April 30		Variance Better (worse) than	
	2000	1999	$	%

Total revenues	$ 4,668	$ 4,408	$ 260	5.9%
Compensation & benefits	6,114	9,672	3,558	36.8%
Interest expense	3,137	1,381	(1,756)	-127.2%
Marketing & advertising	693	432	(261)	-60.4%
Other	17,200	13,652	(3,548)	-26.0%
Total expenses	27,144	25,137	(2,007)	-8.0%
Pretax loss	$ (22,476)	$ (20,729)	$ (1,747)	-8.4%
Interest expense on acquisition debt	$ 56,118	$ 17,757	$ (38,361)	-216.0%

The unallocated corporate pretax loss increased to $22.5 million from $20.7 million in 1999.

Interest expense on debt incurred for business acquisitions increased 216.0% to $56.1 million from $17.8 million in 1999. The increase is due to borrowings associated with RSM McGladrey and OLDE acquisitions during fiscal 2000.

Net investment income decreased 74.2% to $8.3 million from $32.2 million in the prior year. The decrease is a result of less cash available for investment due to business acquisitions and share repurchases throughout fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES

Cash and marketable securities, excluding trading securities, were $550.2 million at April 30, 2001, compared to $636.2 million at April 30, 2000. Working capital decreased to $282.8 million at April 30, 2001 from $346.1 million at April 30, 2000. The working capital ratio at April 30, 2001 is 1.14 to 1, compared to 1.10 to 1 at April 30, 2000. The increase in the working capital ratio is primarily attributable to the decrease in short-term borrowings.

The Company incurs short-term borrowings throughout the year primarily to fund receivables associated with its Business services, mortgage loans held for sale, and participation in RALs, and to fund seasonal working capital needs. These short-term borrowings in the U.S. are supported by a $1.86 billion back-up credit facility through October 2001, subject to annual renewal.

In Canada, from January through April each year, the Company uses Canadian borrowings to purchase refunds due its clients from Revenue Canada. Maturities of these borrowings range from 30 to 90 days. Net accounts receivable at April 30, 2001 and 2000 include amounts due from Revenue Canada of $11.8 million and $17.1 million, respectively.

In April 2000, the Company first entered into third party off-balance sheet arrangements and whole-loan sale arrangements for Option One. These arrangements, modified in April 2001, allow the Company to originate mortgage loans and then sell the loans to a qualified special purpose entity without having to use the Company's short-term borrowings to fund the loans. The arrangements, which are not guaranteed by H&R Block, freed up excess cash and short-term borrowing capacity ($633.8 million at April 30, 2001), improved liquidity and flexibility, and reduced balance sheet risk, while providing stability and access to liquidity in the secondary market for mortgage loans. The Company has commitments to fund mortgage loans of $1.5 billion at April 30, 2001 as long as there is no violation of any conditions established in the contracts. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements. If the commitments are exercised they will be funded using the Company's off-balance sheet arrangements.

At April 30, 2001, the Company had no short-term borrowings, a decrease from $283.8 million at April 30, 2000. The Company's capital expenditures, dividend payments, share repurchase program, Business services acquisition payments and normal operating activities, including RALs, during the year were funded through both internally-generated funds and short-term borrowings.

For the twelve months ended April 30, 2001 and 2000, interest expense was $242.6 million and $155.0 million, respectively. The increase in interest expense is due to the inclusion of operating interest expense associated with the borrowing activities of OLDE for a full year ($106.3 million) compared to only five months in the prior year and acquisition interest expense of $70.7 million related to the OLDE acquisition in December 1999. These increases were partially offset by lower interest expense from Mortgage operations because the Company sells the majority of its mortgage loans on the same day they are funded and essentially no longer incurs short-term borrowings to fund its mortgage loans.

In April 2000, the Company issued $500 million of 8 1/2 % Senior Notes, due 2007. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the initial short-term borrowings for the OLDE acquisition.

In October 1997, the Company issued $250 million of 6 3/4% Senior Notes, due 2004. The Senior Notes are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings which initially funded the acquisition of Option One.

Long-term debt at April 30, 2001 was comprised of the $750 million of Senior Notes described above, future payments related to the acquisitions of RSM McGladrey and other accounting firms, capital lease obligations and mortgage notes. The current portion of long-term debt was $51.8 million, down from $68.0 million last year, due to payments made during fiscal 2001 with the remaining amount representing payments to be made during fiscal 2002 for accounting firm acquisitions, capital lease obligations and mortgage notes. Long-term debt decreased to $871.0 million from $872.4 million at April 30, 2000 due to obligations moving to current and fewer accounting firm acquisitions during the year. Stockholders' equity at April 30, 2001 and 2000 was $1.2 billion. The Company's debt to total equity ratio at April 30, 2001 was 44%, compared with 50% last year.

Management anticipates a higher level of capital expenditures in 2002, exclusive of acquisitions, than in fiscal 2001. Capital expenditures are expected to increase to support the execution of the Company's strategy. The Company will continue to use short-term financing in the United States to finance various financial activities conducted by Block Financial Corporation and in Canada to finance the Canadian refund discount program.

In March 2000, the Company's Board of Directors approved a plan to repurchase up to 12 million shares of its common stock. At April 30, 2001, 7.2 million shares had been repurchased under this plan, with 6.8 million shares purchased during fiscal 2001. The Company plans to continue to purchase its shares on the open market in accordance with this authorization, subject to various factors including the price of the stock, the ability to maintain progress toward a financial and capital structure that will support a mid single A rating (Moody's - A2; Standard & Poors - A; and Fitch - A), the availability of excess cash, the ability to maintain liquidity and financial flexibility, securities laws restrictions and other investment opportunities available.

OTHER ISSUES

On June 20, 2001, the Company's Board of Directors declared a two-for-one split of its Common Stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001. Unaudited proforma net earnings per share data is presented in the notes to consolidated financial statements.

The Notes to Consolidated Financial Statements, as well as other information contained in this Annual Report to Shareholders may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based upon current information, expectations, estimates and projections regarding the Company, the industries and markets in which the

Company operates, and management's assumptions and beliefs relating thereto. Words such as "will," "plan," "expect," "remain," "intend," "estimate," "approximate," and variations thereof and similar expressions are intended to identify such forward-looking statements. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such forward-looking statements. Such differences could be caused by a number of factors including, but not limited to, the uncertainty of laws, legislation, regulations, supervision and licensing by Federal, state and local authorities and their impact on any lines of business in which the Company's subsidiaries are involved; unforeseen compliance costs; changes in economic, political or regulatory environments; changes in competition and the effects of such changes; the inability to implement the Company's strategies; changes in management and management strategies; the Company's inability to successfully design, create, modify and operate its computer systems and networks; new accounting standards; litigation involving the Company; the uncertainties of the extent of share repurchases and their effect on earnings per share; and risks described from time to time in reports and registration statements filed by the Company and its subsidiaries with the Securities and Exchange Commission. Readers should take these factors into account in evaluating any such forward-looking statements. The Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CONSOLIDATED STATEMENTS OF EARNINGS
Amounts in thousands, except per share amounts

Year Ended April 30	2001	2000	1999
REVENUES:			
Service revenues	$ 2,441,448	$ 2,021,162	$ 1,335,177
Product sales	368,844	267,336	176,508
Royalties	149,683	138,903	124,323
Other	41,600	24,542	8,657
	3,001,575	2,451,943	1,644,665
EXPENSES:			
Employee compensation and benefits	1,192,294	963,536	610,866
Occupancy and equipment	283,181	253,171	182,701
Interest	242,551	155,027	69,338
Depreciation and amortization	205,608	147,218	74,605
Marketing and advertising	143,559	140,683	90,056
Supplies, freight and postage	70,440	64,599	57,157
Bad debt	84,422	51,719	71,662
Other	314,454	273,902	133,206
	2,536,509	2,049,855	1,289,591
Operating earnings	465,066	402,088	355,074
OTHER INCOME:			
Investment income, net	5,977	9,840	32,234
Other, net	2,035	338	(3,767)
	8,012	10,178	28,467
Earnings from continuing operations before income taxes	473,078	412,266	383,541
Taxes on earnings	196,330	160,371	145,746
NET EARNINGS FROM CONTINUING OPERATIONS BEFORE CHANGE IN ACCOUNTING PRINCIPLE	276,748	251,895	237,795
Net loss from discontinued operations (less applicable income tax benefit of $953)	-	-	(1,490)
Net loss on sale of discontinued operations (less applicable income tax benefit of $13,387)	-	-	(20,939)
Cumulative effect of change in accounting principle for derivatives and			

hedging activities (less applicable income taxes of $2,717)	4,414	-	-
NET EARNINGS	$ 281,162	$ 251,895	$ 215,366
BASIC NET EARNINGS PER SHARE:			
Net earnings from continuing operations	$ 3.01	$ 2.57	$ 2.38
Net loss from discontinued operations	-	-	(.22)
Cumulative effect of change in accounting principle	.05	-	-
Net earnings	$ 3.06	$ 2.57	$ 2.16
DILUTED NET EARNINGS PER SHARE:			
Net earnings from continuing operations	$ 2.99	$ 2.55	$ 2.36
Net loss from discontinued operations	-	-	(.22)
Cumulative effect of change in accounting principle	.05	-	-
Net earnings	$ 3.04	$ 2.55	$ 2.14

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except share data

April 30	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 271,813	$ 379,901
Marketable securities - available-for-sale	8,266	16,966
Marketable securities - trading	46,158	45,403
Receivables from customers, brokers, dealers and clearing organizations, less allowance for doubtful accounts of $1,692 and $759	1,310,804	2,857,379
Receivables, less allowance for doubtful accounts of $47,125 and $49,602	373,223	434,722
Prepaid expenses and other current assets	260,942	145,741
Total current assets	2,271,206	3,880,112
INVESTMENTS AND OTHER ASSETS:		
Investments in available-for-sale marketable securities	270,159	239,297
Excess of cost over fair value of net tangible assets acquired, less accumulated amortization of $231,697 and $130,305	1,051,826	1,095,074
Other	239,586	198,887
	1,561,571	1,533,258
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation and amortization of $324,287 and $225,967	288,847	299,499
	$ 4,121,624	$ 5,712,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ -	$ 283,797
Accounts payable to customers, brokers and dealers	1,058,000	2,570,200
Accounts payable, accrued expenses and deposits	361,210	222,362
Accrued salaries, wages and payroll taxes	221,830	173,333
Accrued taxes on earnings	295,599	216,298
Current portion of long-term debt	51,763	67,978
Total current liabilities	1,988,402	3,533,968
LONG-TERM DEBT	870,974	872,396
OTHER NONCURRENT LIABILITIES	88,507	87,916
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, no par, stated value $.01 per share, authorized 400,000,000 shares	1,089	1,089
Convertible preferred stock, no par, stated value $.01 per share, authorized 500,000 shares	-	-
Additional paid-in capital	419,957	420,594

Accumulated other comprehensive income (loss)	(42,767)	(26,241)
Retained earnings	1,450,112	1,277,324
	1,828,391	1,672,766
Less cost of common stock in treasury	654,650	454,177
	1,173,741	1,218,589
	$ 4,121,624	$ 5,712,869

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in thousands

Year Ended April 30	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 281,162	$ 251,895	$ 215,366
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	205,608	147,218	74,605
Provision for bad debt	84,422	51,719	71,662
Accretion of acquisition liabilities	11,863	10,641	-
Provision for deferred taxes on earnings	(38,870)	(29,286)	1,739
Net (gain) loss on sales of operating units	(2,040)	14,501	20,939
Cumulative effect of change in accounting principle	(4,414)	-	-
Net gain on sales of available-for-sale securities	(17,744)	(11,697)	(4,124)
Changes in assets and liabilities, net of acquisitions:			
Receivables from customers, brokers, dealers and clearing organizations	1,544,640	(893,435)	-
Receivables	(484,836)	(409,690)	112,073
Mortgage loans held for sale:			
Originations and purchases	(7,254,552)	(5,967,895)	(4,290,207)
Sales and principal repayments	7,336,659	6,442,094	4,201,187
Marketable securities - trading	(755)	6,899	-
Prepaid expenses and other current assets	(88,515)	(52,551)	(27,952)
Accounts payable to customers, brokers and dealers	(1,512,200)	868,012	-
Accounts payable, accrued expenses and deposits	138,499	3,732	46,029
Accrued salaries, wages and payroll taxes	48,901	13,683	55,178
Accrued taxes on earnings	66,465	68,316	(260,458)
Other, net	(18,778)	(23,578)	23,237
Net cash provided by operating activities	295,515	490,578	239,274
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of available-for-sale securities	(10,636)	(14,281)	(251,627)
Maturities of available-for-sale securities	21,524	68,261	219,400
Sales of available-for-sale securities	356,192	211,836	522,252
Purchases of property and equipment, net	(90,033)	(141,856)	(89,782)
Payments made for business acquisitions, net of cash acquired	(21,143)	(971,802)	(123,657)
Proceeds from sale of subsidiary	23,200	-	-
Other, net	(20,497)	(6,505)	(25,643)
Net cash provided by (used in) investing activities	258,607	(854,347)	250,943
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of notes payable	(18,219,741)	(50,800,661)	(17,276,595)
Proceeds from issuance of notes payable	17,935,944	51,012,519	16,593,978
Proceeds from issuance of long-term debt	-	495,800	-
Payments on acquisition debt	(68,743)	(4,730)	-
Dividends paid	(108,374)	(105,480)	(95,004)
Payments to acquire treasury shares	(222,895)	(50,654)	(492,945)
Proceeds from stock options exercised	19,550	36,958	73,481
Other, net	2,049	(33,322)	(748)
Net cash provided by (used in) financing activities	(662,210)	550,430	(1,197,833)
Net increase (decrease) in cash and cash equivalents	(108,088)	186,661	(707,616)
Cash and cash equivalents at beginning of the year	379,901	193,240	900,856
Cash and cash equivalents at end of the year	$ 271,813	$ 379,901	$ 193,240
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	$ 150,784	$ 122,447	$ 394,273
Interest paid	230,448	141,577	71,431

See notes to consolidated financial statements.

17

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Amounts in thousands

	Common Stock		Convertible Preferred Stock		Additional	
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings
Balances at May 1, 1998	108,973	$ 1,089	2	$ -	$ 432,335	$ 1,010,547
Net earnings for the year	-	-	-	-	-	215,366
Unrealized loss on translation	-	-	-	-	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	-
Comprehensive income	-	-	-	-	-	-
Stock options exercised	-	-	-	-	(12,042)	-
Restricted stock granted	-	-	-	-	(81)	-
Stock issued for acquisition	-	-	-	-	807	-
Conversion of Convertible Preferred Stock	-	-	(2)	-	(361)	-
Acquisition of treasury shares	-	-	-	-	-	-
Cash dividends paid - $.95 per share	-	-	-	-	-	(95,004)
Balances at April 30, 1999	108,973	1,089	-	-	420,658	1,130,909
Net earnings for the year	-	-	-	-	-	251,895
Unrealized loss on translation	-	-	-	-	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	-
Comprehensive income	-	-	-	-	-	-
Stock options exercised	-	-	-	-	(1,567)	-
Restricted stock granted	-	-	-	-	200	-
Stock issued for acquisition	-	-	-	-	1,306	-
Conversion of Convertible Preferred Stock	-	-	-	-	(3)	-
Acquisition of treasury shares	-	-	-	-	-	-
Cash dividends paid - $1.075 per share	-	-	-	-	-	(105,480)
Balances at April 30, 2000	108,973	1,089	-	-	420,594	1,277,324
Net earnings for the year	-	-	-	-	-	281,162
Unrealized loss on translation	-	-	-	-	-	-
Change in net unrealized gain on marketable securities	-	-	-	-	-	-
Comprehensive income	-	-	-	-	-	-
Stock options exercised	-	-	-	-	(68)	-
Restricted stock granted	-	-	-	-	(382)	-
Stock issued for ESPP	-	-	-	-	(187)	-
Acquisition of treasury shares	-	-	-	-	-	-
Cash dividends paid - $1.175 per share	-	-	-	-	-	(108,374)
Balances at April 30, 2001	108,973	$ 1,089	-	$ -	$ 419,957	$ 1,450,112

	Treasury Stock		Accumulated Other Comprehensive	Total
	Shares	Amount	Income (loss)	Equity
Balances at May 1, 1998	(1,992)	$ (77,822)	$ (24,517)	$ 1,341,632
Net earnings for the year	-	-	-	-
Unrealized loss on translation	-	-	(1,525)	-
Change in net unrealized gain on marketable securities	-	-	2,642	-
Comprehensive income	-	-	-	216,483
Stock options exercised	2,175	90,462	-	78,420
Restricted stock granted	37	1,544	-	1,463
Stock issued for acquisition	268	11,053	-	11,860
Conversion of Convertible Preferred Stock	11	439	-	78
Acquisition of treasury shares	(11,843)	(492,945)	-	(492,945)
Cash dividends paid - $.95 per share	-	-	-	(95,004)
Balances at April 30, 1999	(11,344)	(467,269)	(23,400)	1,061,987

Net earnings for the year	-	-	-	-
Unrealized loss on translation	-	-	(2,647)	-
Change in net unrealized gain on marketable securities	-	-	(194)	-
Comprehensive income	-	-	-	249,054
Stock options exercised	1,023	42,268	-	40,701
Restricted stock granted	43	1,781	-	1,981
Stock issued for acquisition	475	19,694	-	21,000
Conversion of Convertible Preferred Stock	1	3	-	-
Acquisition of treasury shares	(1,136)	(50,654)	-	(50,654)
Cash dividends paid - $1.075 per share	-	-	-	(105,480)
Balances at April 30, 2000	(10,938)	(454,177)	(26,241)	1,218,589
Net earnings for the year	-	-	-	-
Unrealized loss on translation	-	-	(11,864)	-
Change in net unrealized gain on marketable securities	-	-	(4,662)	-
Comprehensive income	-	-	-	264,636
Stock options exercised	501	19,121	-	19,053
Restricted stock granted	57	2,252	-	1,870
Stock issued for ESPP	28	1,049	-	862
Acquisition of treasury shares	(6,816)	(222,895)	-	(222,895)
Cash dividends paid - $1.175 per share	-	-	-	(108,374)
Balances at April 30, 2001	(17,168)	$ (654,650)	$ (42,767)	$ 1,173,741

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except share data

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS: The operating subsidiaries of H&R Block, Inc. provide a variety of services to the general public, principally in the United States, but also in Canada, Australia and other foreign countries. Approximately $1,733,700, or 58% of total revenues for the year ended April 30, 2001 were generated from tax return preparation, electronic filing of tax returns and other tax-related services. Certain of these subsidiaries also originate, service, and sell nonconforming and conforming mortgages, offer investment services through broker-dealers, offer personal productivity software, participate in refund anticipation loan products offered by a third-party lending institution, and offer accounting, tax and consulting services to business clients.

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of H&R Block, Inc. (the "Company"), all majority-owned subsidiaries and companies that are directly or indirectly controlled by the Company through majority ownership or otherwise. All material intercompany transactions and balances have been eliminated.

Some of the Company's subsidiaries operate in regulated industries, and their underlying accounting records reflect the policies and requirements of these industries.

RECLASSIFICATIONS: Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

MANAGEMENT ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents include cash on hand and due from banks and securities purchased under agreements to resell. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

The Company's broker-dealers purchase securities under agreements to resell and account for them as collateralized financings. The securities are carried at the amounts at which the securities will be subsequently resold, as specified in the respective agreements. Collateral relating to investments in repurchase agreements is held by independent custodian banks. The securities are revalued daily and collateral added whenever necessary to bring market value of the underlying collateral equal to or greater than the repurchase specified in the contracts.

MARKETABLE SECURITIES - AVAILABLE-FOR-SALE: Certain marketable debt and equity securities are classified as available-for-sale, based on management's intentions, and are carried at market value, based on quoted prices, with unrealized gains and losses included in other comprehensive income.

Certain residual interests in securitizations of real estate mortgage investment conduits ("REMICs") and in net interest margin ("NIM") transactions are recorded as a result of the Company's securitization of mortgage loans through various special-purpose trust vehicles. These residual interests are classified as available-for-sale securities, and are carried at market value, based on discounted cash flow models, with unrealized gains and losses included in other comprehensive income. The residual interests are amortized over the estimated life of the related loan's cash flows. If losses are determined to be other-than-temporary, the residual is written down to fair value with the realized loss included in the consolidated statements of earnings.

The cost of marketable securities sold is determined on the specific identification method and realized gains and losses are reflected in earnings.

MARKETABLE SECURITIES - TRADING: Certain marketable debt and equity securities are classified as trading, and are held by the Company's broker-dealers. Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" is not applicable to broker-dealers. These securities are carried at market value, based on quoted prices, with unrealized gains and losses included in earnings.

Certain residual interests in securitizations of REMICs are classified as trading, based on management's intentions and criteria as established by the Company, and are carried at market value, based on discounted cash flow models, with unrealized gains and losses included in earnings.

RECEIVABLES FROM CUSTOMERS, BROKERS, DEALERS AND CLEARING ORGANIZATIONS AND ACCOUNTS PAYABLE TO CUSTOMERS, BROKERS AND DEALERS: Customer receivables and payables consist primarily of amounts due on margin and cash transactions. These receivables are collateralized by customers' securities held, which are not reflected in the accompanying consolidated financial statements.

Receivables from brokers are generally collected within 30 days and are collateralized by securities in physical possession of, or on deposit

with the Company or receivables from customers or other brokers. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses.

RECEIVABLES: Receivables consist primarily of business services accounts receivable and mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of cost or market value. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses.

FOREIGN CURRENCY TRANSLATION: Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates prevailing at the end of the year. Revenue and expense transactions are translated at the average of exchange rates in effect during the period. Translation gains and losses are recorded in other comprehensive income.

EXCESS OF COST OVER FAIR VALUE OF NET TANGIBLE ASSETS ACQUIRED: The excess of cost of purchased subsidiaries, operating offices and franchises over the fair value of net tangible assets acquired is being amortized over a weighted average life of 14 years on a straight-line basis.

At each balance sheet date, the Company assesses long-lived assets, including intangibles, for impairment by comparing the carrying value to future undiscounted cash flows. To the extent that there is impairment, analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount. In addition, a determination is made by management to ascertain whether goodwill has been impaired. Analysis is performed on an operating business unit basis using the fair value method. If the review indicates that goodwill is not recoverable, the Company would recognize an impairment loss. Under these methods, no material impairment adjustments to goodwill, other intangibles or other long-lived assets were made during fiscal year 2001, 2000, or 1999.

MORTGAGE SERVICING RIGHTS: Mortgage servicing rights ("MSRs") are retained in the sale or securitization of mortgage loans and are recorded based on the present value of estimated future cash flows related to servicing loans. The MSRs are amortized to earnings in proportion to, and over the period of, estimated net future servicing income. MSRs are periodically reviewed for impairment. Impairment is assessed based on the fair value of each risk stratum. The Company stratifies MSRs using the following risk characteristics: loan sale date (which approximates date of origination); and loan type (6-month adjustable, 2 to 3-year adjustable and 30-year fixed). Fair values take into account the historical prepayment activity of the related loans and management's estimates of the remaining future cash flows to be generated by the underlying mortgage loans. When MSRs are reviewed, management makes an estimate of the future prepayment rates and other key variables of the underlying mortgage loans, and if actual performance proves to be worse than the estimate, impairment of MSRs could occur. At April 30, 2001 and 2000, impairment did not exist in any stratum.

PROPERTY AND EQUIPMENT: Buildings and equipment are stated at cost and are depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are stated at cost and are amortized over the lesser of the term of the respective lease or the estimated useful life, using the straight-line method. Estimated useful lives are 15 to 40 years for buildings, 3 to 5 years for computers and other equipment and up to 8 years for leasehold improvements.

The Company capitalizes certain costs associated with software developed or obtained for internal use. These costs are amortized over 36 months using the straight-line method.

NOTES PAYABLE: The Company uses short-term borrowings to finance temporary liquidity needs and various financial activities conducted by its subsidiaries. There were no notes payable outstanding at April 30, 2001. The weighted average interest rate of notes payable at April 30, 2000 was 6.2%.

REVENUE RECOGNITION: Service revenues consist primarily of fees for preparation of tax returns, participations in refund anticipation loans, consulting services, brokerage commissions and interest earned on customer accounts and mortgage loans. Generally, service revenues are recorded in the period in which service is performed. Commissions revenue is recognized on a trade-date basis. Revenues for services rendered in connection with the Company's Business services segment are recognized on a time and materials basis.

Product sales consist primarily of gains on sales of mortgage loans. Gains on loan sales are recognized in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," utilizing the financial-components approach which focuses on control of assets and liabilities being transferred.

The Company records franchise royalties, based upon the contractual percentages of franchise revenues, in the period in which the franchise provides the service.

ADVERTISING EXPENSE: The Company expenses advertising costs the first time the advertising takes place.

TAXES ON EARNINGS: The Company and its subsidiaries file a consolidated

Federal income tax return on a calendar year basis. Therefore, the current liability for taxes on earnings recorded in the balance sheet at each year-end consists principally of taxes on earnings for the period January 1 to April 30 of the respective year. Deferred taxes are provided for temporary differences between financial and tax reporting, which consist principally of residual interests, accrued expenses, deferred compensation, mortgage servicing rights and allowances for credit losses.

The Company has a Tax Sharing Agreement with its former subsidiary, CompuServe Corporation ("CompuServe"), pursuant to which CompuServe generally is obligated to pay the Company (or the Company is obligated to pay CompuServe) for CompuServe's liability (or tax benefits) related to Federal, state, and local income taxes for any taxable period during which CompuServe was a subsidiary of the Company.

DISCLOSURE REGARDING CERTAIN FINANCIAL INSTRUMENTS: The carrying values reported in the balance sheet for cash equivalents, all receivables, notes payable, all accounts payable, accrued liabilities and the current portion of long-term debt approximate fair market value due to the relatively short-term nature of the respective instruments.

STOCK COMPENSATION PLANS: The Company accounts for its stock compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

NEW ACCOUNTING STANDARDS: In the fourth quarter of fiscal 2001, the Company elected the early adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 ("SFAS 133") and Statement of Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 138"). SFAS 133 and 138 establish accounting and reporting standards for derivative and hedging activities, and requires companies to record derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting. The Company has identified derivative instruments related to certain of its commitments to originate residential mortgage loans. The Company had no embedded derivative instruments requiring separate accounting treatment.

The Company originates residential mortgage loans with the intention of selling these loans. These commitments to fund loans are freestanding derivative instruments and do not qualify for hedge accounting treatment and, therefore, the fair value adjustments are recorded in the consolidated statement of earnings. The commitments that qualify as derivative instruments totaled $252,593. The transition adjustment for adoption of SFAS 133 and SFAS 138 of $4,414, net of taxes, is shown as the cumulative effect of a change in accounting principle in the consolidated statement of earnings for the year ended April 30, 2001. Proforma effects are not disclosed as the change affects only the current period.

Currently, there are ongoing discussions surrounding the implementation and interpretation of SFAS 133 by the Financial Accounting Standards Board's Derivative Implementation Group. If the definition of derivative instruments is altered, this change may impact the Company's transition adjustment amounts and subsequent reported operating results.

In December 1999, the Securities and Exchange Commission ("SEC") issued SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company implemented SAB 101 in the fourth quarter of fiscal 2001. The implementation of SAB 101 has no impact on annual revenues and earnings, however, due to the seasonal influences of the business, the implementation resulted in a shift of revenues and earnings between the Company's third and fourth quarters. As a result, the Company has adjusted its third quarter of fiscal year 2001. Except for the Quarterly Financial Data, the Company has not presented pro forma results.

In fiscal year 2001, the Company adopted Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. SFAS 140 is a replacement of Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain

new disclosures, but carries over most of the SFAS 125 provisions without reconsideration. The adoption of SFAS 140 had no effect on the consolidated financial statements.

In July 2000, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets ("EITF 99-20"), and subsequently clarified its consensus in September 2000, November 2000 and January 2001. EITF 99-20 addresses how the holder of beneficial interests should recognize cash flows on the date of the transaction and how interest income is recognized over the life of the interests. EITF 99-20 will be effective for the Company in the first quarter of fiscal year 2002. The Company has not yet determined the effect of EITF 99-20 on the consolidated financial statements.

NET EARNINGS PER SHARE

Basic net earnings per share is computed using the weighted average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted net earnings per share. The computations of basic and diluted net earnings per share from continuing operations are as follows (shares in thousands):

Year Ended April 30	2001	2000	1999
Net earnings from continuing operations before change in accounting principle	$276,748	$251,895	$237,795
Basic weighted average shares	91,947	98,033	99,761
Effect of dilutive securities:			
Common and convertible preferred stock options	620	895	1,058
Convertible preferred stock	1	1	2
Dilutive potential common shares	92,568	98,929	100,821
Net earnings per share from continuing operations:			
Basic	$ 3.01	$ 2.57	$ 2.38
Diluted	2.99	2.55	2.36

Diluted net earnings per share excludes the impact of weighted average shares issuable upon the exercise of stock options of 6,953,301, 3,039,195 and 149,370 shares for 2001, 2000 and 1999, respectively, because the options' exercise prices were greater than the average market price of the common shares and therefore, the effect would be antidilutive.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of the following:

April 30	2001	2000

Cash and interest-bearing deposits	$218,876	$162,363
Other interest-bearing securities	42,007	183,144
Securities purchased under agreements to resell	9,000	32,000
Certificates of deposit	1,930	2,394
	$271,813	$379,901

MARKETABLE SECURITIES - AVAILABLE-FOR-SALE

The amortized cost and market value of marketable securities classified as available-for-sale at April 30, 2001 and 2000 are summarized below:

	2001				2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Current:								
Municipal bonds and notes	$ 8,260	$ 6	$ -	$ 8,266	$ 17,021	$ -	$ 55	$ 16,966
	8,260	6	-	8,266	17,021	-	55	16,966
Noncurrent:								
Residual interests	243,840	7,571	12,811	238,600	182,629	4,486	1,169	185,946
Municipal bonds	26,654	352	58	26,948	49,566	2	645	48,923
Common stock	4,946	500	835	4,611	4,025	571	168	4,428
	275,440	8,423	13,704	270,159	236,220	5,059	1,982	239,297
	$ 283,700	$ 8,429	$ 13,704	$ 278,425	$ 253,241	$ 5,059	$ 2,037	$ 256,263

Proceeds from the sales of available-for-sale securities were $356,192, $211,836 and $522,252 during 2001, 2000 and 1999, respectively. Gross realized gains on those sales during 2001, 2000 and 1999 were $17,936, $12,177 and $4,711, respectively; gross realized losses were $192, $480 and $587, respectively.

Contractual maturities of available-for-sale debt securities at April 30, 2001 are presented below. Since expected maturities differ from contractual maturities due to the issuers' rights to prepay certain obligations or the seller's rights to call certain obligations, the first call date, put date or auction date for municipal bonds and notes is considered the contractual maturity date.

	Amortized Cost	Market Value
Within one year	$ 8,260	$ 8,266
After one year through five years	15,294	15,404
After five years through 10 years	11,360	11,544
	$ 34,914	$ 35,214

RETAINED INTERESTS

Beginning in April 2000, the Company entered into off-balance sheet arrangements under which the Company originates mortgage loans and sells the mortgage loans the same day the loans are funded in a whole-loan sale to a third-party trust. Under these arrangements, the Company retains a receivable from the trust that is then pledged to a qualified special purpose entity who securitizes the related mortgage loans. The Company then retains a residual interest in these securitized loans that is classified as either an available-for-sale security or a trading security depending on certain criteria as established by the Company. The Company then securitizes these residual interests in net interest margin ("NIM") transactions. The Company securitized $380,267 of these residual interests in NIM transactions. The receivable from the whole-loan sales of $66,587 and the pledge of this receivable of $14,206, were treated as a noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 2001. The Company received proceeds from NIM securitizations of $319,620, servicing fees of $214 and cash flows from interest-only strips of $2,127 from the securitization trusts in fiscal 2001.

In connection with these off-balance sheet arrangements, the Company entered into forward loan sale commitments whereby the Company was obligated to sell, during fiscal 2001, a minimum of $2,000,000 and a maximum of $6,000,000 in mortgage loans. There was no commitment fee and the commitments are renewable annually. For fiscal 2002, the forward loan sale commitments were not renewed.

The Company securitized $3,767,010 in mortgage loans during the year ended April 30, 2000, resulting in residual interests with an allocated

carrying value if $245,801. The Company securitized $248,555 of residual interests through NIM transactions. The remaining residual interests from the securitizations during 2000 of $28,042 were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 2000.

Included in investments in available-for-sale marketable securities as of April 30, 2001 and April 30, 2000 are residual interests in securitizations. The Company estimates future cash flows from these residuals and values them utilizing assumptions that it believes are consistent with those that would be utilized by an unaffiliated third-party purchaser.

The fair value of residuals are determined by computing the present value of the excess of the weighted average coupon on the loans sold over the sum of (1) the coupon on the senior interests, (2) a base servicing fee paid to the servicer of the loans (which is usually the Company), (3) expected losses to be incurred on the portfolio of the loans sold (as projected to occur) over the lives of the loans, (4) fees payable to the trustee and insurer, (5) estimated collections of prepayment penalty fees, and (6) other fees. Prepayment and loss assumptions used in estimating the cash flows are based on evaluation of the actual experience of the Company's servicing portfolio or on market rates on new portfolios, taking into consideration the current and expected interest rate environment and its expected impact on future prepayment and default rates. The estimated cash flows expected to be received by the Company are discounted at an interest rate the Company believes an unaffiliated third-party purchaser would require as a rate of return on such a financial instrument. To the extent that actual future excess cash flows are different from estimated excess cash flows, the fair value of the Company's residual could increase or decrease.

Mortgage servicing rights are included in other assets on the consolidated balance sheet. Assumptions used in estimating the value of MSRs includes market discount rates and anticipated prepayment speeds. The prepayment speeds are estimated using the Company's historical experience and third party market sources for fixed-rated mortgages with similar coupons and prepayment reports for comparable adjustable rate mortgage loans. The key assumptions the Company utilizes to estimate the cash flows of the residual interests and MSRs are as follows:

Estimated annual prepayments	23% to 75%
Estimated annual credit losses	.5% to 3.5%
Discount rate - residual interests	12% to 20%
Discount rate - MSRs	12.8%

The fair value of the residuals at April 30, 2001 and April 30, 2000 were $238,600 and $185,946, respectively. The fair value of MSRs at April 30, 2001 and April 30, 2000 were $61,796 and $42,282, respectively. Additions to and amortization of MSRs for 2001 were $37,661 and $18,147, respectively. At April 30, 2001, the sensitivity of the current fair value of the residuals and MSRs to 10% and 20% adverse changes in the above key assumptions are as follows:

	Residential Mortgage Loans Fixed-Rate	Residential Mortgage Loans Adjustable	NIMs	Servicing Assets
Carrying amount/fair value	$ 31,635	$ 46,843	$ 160,122	$ 61,796
Weighted average life (in years)	7.8	5.5	3.9	2.5
Annual prepayments:				
Adverse 10% - $ impact on fair value	$ (1,026)	$ (1,350)	$ (21,911)	$ (6,916)
Adverse 20% - $ impact on fair value	(1,824)	(2,326)	(37,947)	(15,172)
Annual credit losses:				
Adverse 10% - $ impact on fair value	$ (686)	$ (792)	$ (19,168)	Not applicable
Adverse 20% - $ impact on fair value	(1,451)	(1,508)	(37,004)	Not applicable
Discount rate:				
Adverse 10% - $ impact on fair value	$ (1,052)	$ (1,703)	$ (7,603)	$ (1,422)
Adverse 20% - $ impact on fair value	(2,039)	(3,314)	(14,749)	(2,776)
Variable interest rates:				
Adverse 10% - $ impact on fair value	$ (127)	$ 22	$ (43,838)	$ (6)
Adverse 20% - $ impact on fair value	(114)	(8)	(85,925)	(12)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

RECEIVABLES

Receivables consist of the following:

April 30	2001	2000
Business services accounts receivable	$ 188,041	$ 148,109
Mortgage loans held for sale	80,925	163,033
Participation in refund anticipation loans	38,824	47,581

Software receivables	33,456	31,721
Loans to franchises	28,716	24,888
Other	50,386	68,992
	420,348	484,324
Allowance for doubtful accounts	47,125	49,602
	$ 373,223	$ 434,722

EXCESS OF COST OVER FAIR VALUE OF NET TANGIBLE ASSETS ACQUIRED
Excess of cost over fair value of net tangible assets acquired consists of the following:

April 30	2001	2000
Goodwill	$ 667,608	$ 636,350
Customer relationships	397,049	387,775
Assembled workforce	116,312	104,044
Trade names	55,638	55,638
Management infrastructure	29,147	29,147
Noncompete agreements	17,769	12,425
	1,283,523	1,225,379
Less accumulated amortization	231,697	130,305
	$1,051,826	$1,095,074

Amortization expense for 2001, 2000 and 1999 amounted to $104,276, $66,346, and $24,378, respectively.

PROPERTY AND EQUIPMENT
A summary of property and equipment follows:

April 30	2001	2000
Land	$ 42,420	$ 42,338
Buildings	83,855	74,260
Computers and other equipment	338,271	290,386
Capitalized software	67,636	50,655
Leasehold improvements	80,952	67,827
	613,134	525,466
Less accumulated depreciation and amortization	324,287	225,967
	$ 288,847	$ 299,499

Depreciation and amortization expense for 2001, 2000 and 1999 amounted to $101,332, $80,872 and $50,227, respectively. The Company has property and equipment with a cost of $45,913 under capital lease. The Company has an agreement to lease real estate and buildings under a noncancelable capital lease for the next 19 years with an option to purchase after six years. The real estate, building and long-term debt of $14,075 related to this lease was treated as a noncash investing activity on the consolidated statement of cash flows for the year ended on April 30, 2000.

LONG-TERM DEBT

On April 13, 2000, the Company issued $500,000 of 8 1/2 % Senior Notes under a shelf registration statement. The Senior Notes are due April 15, 2007, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay a portion of the short-term borrowings which initially funded the acquisition of OLDE Financial Corporation and Financial Marketing Services, Inc. (collectively, "OLDE").

On October 21, 1997, the Company issued $250,000 of 6 3/4 % Senior Notes under a shelf registration statement. The Senior Notes are due November 1, 2004, and are not redeemable prior to maturity. The net proceeds of this transaction were used to repay short-term borrowings which initially funded the acquisition of Option One Mortgage Corporation ("Option One").

The Company had obligations related to acquisitions of accounting firms of $154,110 and $169,103 at April 30, 2001 and 2000, respectively. The current portion of these amounts is included in the current portion of long-term debt on the consolidated balance sheet. The long-term portions are due from August 2002 to January 2006.

The Company had mortgage notes and capitalized lease obligations of $22,377 at April 30, 2001 that are collateralized by land, buildings and equipment. The obligations are due at varying dates for up to 19 years.

The aggregate payments required to retire long-term debt are $51,763, $44,470, $40,360, $265,788, $12,361 and $507,995 in 2002, 2003, 2004, 2005, 2006 and beyond, respectively.

Based upon borrowing rates currently available to the Company for indebtedness with similar terms, the fair value of the long-term debt was approximately $907,115 and $896,894 at April 30, 2001 and 2000, respectively.

OTHER NONCURRENT LIABILITIES

The Company has deferred compensation plans which permit directors and certain employees to defer portions of their compensation and accrue earnings on the deferred amounts. The compensation, together with Company matching of deferred amounts, has been accrued, and the only expenses related to these plans are the Company match and the earnings on the deferred amounts which are not material to the financial statements. Included in other noncurrent liabilities are $44,490 and $39,862 at April 30, 2001 and 2000, respectively, to reflect the liability under these plans. The Company purchases whole-life insurance contracts on certain related directors and employees to recover distributions made or to be made under the plans and records the cash surrender value of the policies in other assets. If all the assumptions regarding mortality, earnings, policy dividends and other factors are realized, the Company will ultimately realize its investment plus a factor for the use of its money.

In connection with the Company's acquisition of the non-attest assets of McGladrey & Pullen, LLP ("McGladrey") in August 1999, the Company assumed certain pension liabilities related to McGladrey's retired partners. The Company makes payments in varying amounts on a monthly basis. Included in other noncurrent liabilities at April 30, 2001 and 2000 are $31,360 and $36,128, respectively, related to this liability.

STOCKHOLDERS' EQUITY

The Company is authorized to issue 6,000,000 shares of Preferred Stock, without par value. At April 30, 2001, the Company had 5,560,833 shares of authorized but unissued Preferred Stock. Of the unissued shares, 600,000 shares have been designated as Participating Preferred Stock in connection with the Company's shareholder rights plan.

On March 8, 1995, the Board of Directors authorized the issuance of a series of 500,000 shares of nonvoting Preferred Stock designated as Convertible Preferred Stock, without par value. In April 1995, 401,768 shares of Convertible Preferred Stock were issued in connection with an acquisition. In addition, options to purchase 51,828 shares of Convertible Preferred Stock were issued as a part of the acquisition and 37,399 shares of Convertible Preferred Stock were issued in connection with these options. Each share of Convertible Preferred Stock became convertible on April 5, 1998 into four shares of Common Stock of the Company, subject to adjustment upon certain events. The holders of the Convertible

Preferred Stock are not entitled to receive dividends paid in cash, property or securities and, in the event of any dissolution, liquidation or winding-up of the Company, will share ratably with the holders of Common Stock then outstanding in the assets of the Company after any distribution or payments are made to the holders of Participating Preferred Stock or the holders of any other class or series of stock of the Company with preference over the Common Stock.

COMPREHENSIVE INCOME

The Company's comprehensive income is comprised of net earnings, foreign currency translation adjustments and the change in the net unrealized gain or loss on available-for-sale marketable securities. Included in stockholders' equity at April 30, 2001 and 2000, the net unrealized holding gain (loss) on available-for-sale securities was $(2,088) and $2,574, respectively, and the foreign currency translation adjustment was $(40,679) and $(28,815), respectively.

Year Ended April 30	2001	2000	1999
Net earnings	$ 281,162	$ 251,895	$ 215,366
Unrealized gains on securities (less applicable taxes (benefit) of ($3,307), ($124) and $1,619):			
Unrealized holding gains (losses) arising during period (less applicable taxes of $4,057, $4,426, and $3,186)	5,718	6,953	5,199
Less: Reclassification adjustment for gains included in earnings (less applicable taxes of $7,364, $4,550, and $1,567)	(10,380)	(7,147)	(2,557)
Foreign currency translation adjustments	(11,864)	(2,647)	(1,525)
Comprehensive income	$ 264,636	$ 249,054	$ 216,483

STOCK COMPENSATION PLANS

The Company has four stock compensation plans: the 1993 Long-Term Executive Compensation Plan, the 1989 Stock Option Plan for Outside Directors, the 1999 Stock Option Plan for Seasonal Employees, and the 2000 Employee Stock Purchase Plan ("ESPP").

The 1993 plan was approved by the shareholders in September 1993 to replace the 1984 Long-Term Executive Compensation Plan, which terminated at that time except with respect to outstanding awards thereunder. Under the 1993 and 1989 plans, options may be granted to selected employees and outside directors to purchase the Company's Common Stock for periods not exceeding 10 years at a price that is not less than 100% of fair market value on the date of the grant. The options are exercisable either (1) starting one year after the date of the grant, (2) starting one year or three years after the date of the grant on a cumulative basis at the annual rate of 33 1/3% of the total number of option shares, or (3) starting three years after the date of the grant on a cumulative basis at the rate of 40%, 30%, and 30% over the following three years. In addition, certain option grants have accelerated vesting provisions based on the Company's stock price reaching specified levels.

The 1999 Stock Option Plan for Seasonal Employees provided for the grant of options on June 30, 2000, 1999 and 1998 at the market price on the date of the grant. The options are exercisable during September through November in each of the two years following the calendar year of the grant.

Changes during the years ended April 30, 2001, 2000 and 1999 under the stock option plans were as follows:

	2001		2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	8,440,614	$ 44.22	5,726,494	$ 38.03	5,110,392	$ 32.71
Options granted	4,305,517	32.51	5,059,802	50.16	4,127,742	42.20
Options exercised	(510,458)	34.07	(1,032,251)	36.12	(2,196,673)	32.67
Options which expired	(2,781,642)	39.55	(1,313,431)	46.50	(1,314,967)	39.40
Options outstanding, end of year	9,454,031	40.80	8,440,614	44.22	5,726,494	38.03
Shares exercisable, end of year	4,336,857	42.33	5,206,457	42.70	3,505,737	37.62
Shares reserved for future grants, end of year	8,055,518		11,037,281		2,966,135	

A summary of stock options outstanding and exercisable at April 30, 2001 follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at April 30	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at April 30	Weighted-Average Exercise Price
$19.9375 - 28.75	265,684	6 years	$ 27.62	265,684	$ 27.62
$30.6875 - 36.875	4,102,382	6 years	32.49	1,145,905	32.57
$37.00 - 44.625	1,508,298	8 years	41.92	869,267	41.62
$45.00 - 52.00	2,998,667	4 years	49.92	2,056,001	49.97
$55.0625 - 55.625	579,000	9 years	55.62	-	-
	9,454,031			4,336,857	

The 2000 ESPP provides the option to purchase shares of the Company's Common Stock through payroll deductions to a majority of the employees of subsidiaries of the Company. The purchase price of the stock is 90% of the lower of either the fair market value of the Company's Common Stock on the first trading day within the Option Period or on the last trading day within the Option Period. The Option Periods are six-month periods beginning January 1 and July 1 each year. During fiscal 2001, 27,345 shares were purchased under the ESPP out of a total authorized 3,000,000 shares.

The Company applies APB 25 in accounting for its stock compensation plans, under which no compensation cost has been recognized. Had compensation cost for the stock compensation plans been determined in accordance with the fair value accounting method prescribed under SFAS 123, the Company's net earnings and net earnings per share would have been as follows:

Year Ended April 30	2001	2000	1999
Net earnings:			
As reported	$ 281,162	$ 251,895	$ 215,366
Pro forma	262,701	237,544	202,421
Basic net earnings per share:			
As reported	$ 3.06	$ 2.57	$ 2.16
Pro forma	2.86	2.42	2.03
Diluted net earnings per share:			
As reported	$ 3.04	$ 2.55	$ 2.14
Pro forma	2.85	2.41	2.01

For the purposes of computing the pro forma effects of stock compensation plans under the fair value accounting method, the fair value of each stock option grant or purchase right grant was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during 2001, 2000 and 1999 was $9.34, $9.09 and $5.84, respectively. The weighted-average fair value of purchase rights granted during 2001 was $4.58, using the following weighted-average assumptions: expected life of four months, volatility of 26.37%, dividend yield of 3.38% and risk-free interest rate of 6.05%. The following weighted-average assumptions were used for stock option grants during the following periods:

Year Ended April 30	2001	2000	1999
Risk-free interest rate	6.25%	5.75%	5.41%
Expected life	3 years	3 years	3 years
Expected volatility	61.21%	30.67%	21.86%
Dividend yield	3.39%	2.20%	2.36%

SHAREHOLDER RIGHTS PLAN

On July 25, 1998, the rights under the July 1988 shareholder rights plan, as amended, expired and the rights under a shareholder rights plan adopted by the Company's Board of Directors on March 25, 1998 became effective. Like the 1988 plan, the 1998 plan was adopted to deter coercive or unfair takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of the Company's stockholders. Under the 1998 plan, a dividend of one right (a "Right") per share was declared and paid on each share of the Company's Common Stock outstanding on July 25, 1998. Rights automatically attach to shares issued after such date.

Under the 1998 plan, a Right becomes exercisable when a person or group of persons acquires beneficial ownership of 15% or more of the outstanding shares of the Company's Common Stock without the prior written approval of the Company's Board of Directors (an "Unapproved Stock Acquisition"), and at the close of business on the tenth business day following the commencement of, or the public announcement of an intent to commence, a tender offer that would result in an Unapproved Stock Acquisition. The Company may, prior to any Unapproved Stock Acquisition, amend the plan to lower such 15% threshold to not less than the greater of (1) any percentage greater than the largest percentage of beneficial ownership by any person or group of persons then known by the Company, and (2) 10% (in which case the acquisition of such lower percentage of beneficial ownership then constitutes an Unapproved Stock Acquisition and the Rights become exercisable). As adjusted in connection with the two-for-one stock split effective on August 1, 2001, when exercisable, the registered holder of each Right may purchase from the Company one two-hundredth of a share of a class of the Company's Participating Preferred Stock, without par value, at a price of $107.50, subject to adjustment. The registered holder of each Right then also has the right (the "Subscription Right") to purchase for the exercise price of the Right, in lieu of shares of Participating Preferred Stock, a number of shares of the Company's Common Stock having a market value equal to twice the exercise price of the Right. Following an Unapproved Stock Acquisition, if the Company is involved in a merger, or 50% or more of the Company's assets or earning power are sold, the registered holder of each Right has the right (the "Merger Right") to purchase for the exercise price of the Right a number of shares of the common stock of the surviving or purchasing company having a market value equal to twice the exercise price of the Right.

After an Unapproved Stock Acquisition, but before any person or group of persons acquires 50% or more of the outstanding shares of the Company's Common Stock, the Board of Directors may exchange all or part of the then outstanding and exercisable Rights for Common Stock at an exchange ratio of one share of Common Stock per Right (the "Exchange"). Upon any such Exchange, the right of any holder to exercise a Right terminates. Upon the occurrence of any of the events giving rise to the exercisability of the Subscription Right or the Merger Right or the ability of the Board of Directors to effect the Exchange, the Rights held by the acquiring person or group under the new plan will become void as they relate to the Subscription Right, the Merger Right or the Exchange.

The Company may redeem the Rights under the 1998 plan at a price of $.000625 per Right at any time prior to the earlier of (i) an Unapproved Stock Acquisition, or (ii) the expiration of the rights. The Rights under the new plan will expire on March 25, 2008, unless extended by the Board of Directors. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported net earnings per share.

OTHER EXPENSES

Included in other expenses are the following:

Year Ended April 30	2001	2000	1999
Legal and professional	$ 76,232	$ 47,934	$ 13,164
Purchased services	55,985	33,347	19,466
Loan servicing	29,396	15,821	11,158
Refund anticipation loan servicing fees	27,315	28,820	15,028
Travel and entertainment	26,668	26,695	15,094
Taxes and licenses	13,250	17,469	14,531
Brokerage commissions and trading fees	11,516	15,639	3,137

TAXES ON EARNINGS
The components of earnings from continuing operations before income taxes upon which Federal and foreign income taxes have been provided are as follows:

Year Ended April 30	2001	2000	1999
United States	$ 466,437	$ 408,024	$ 381,443
Foreign	6,641	4,242	2,098
	$ 473,078	$ 412,266	$ 383,541

Deferred income tax provisions (benefits) reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The current and deferred components of taxes on earnings from continuing operations are comprised of the following:

Year Ended April 30	2001	2000	1999
Current:			
Federal	$ 204,060	$ 163,535	$ 123,035
State	27,701	23,036	16,128
Foreign	3,439	3,898	1,553
	235,200	190,469	140,716
Deferred:			
Federal	(33,724)	(24,412)	5,114
State	(4,578)	(3,438)	670
Foreign	(568)	(2,248)	(754)
	(38,870)	(30,098)	5,030
	$ 196,330	$ 160,371	$ 145,746

Provision is not made for possible income taxes payable upon distribution of unremitted earnings of foreign subsidiaries. Such unremitted earnings aggregated $65,229 at December 31, 2000. Management intends to reinvest any foreign earnings, therefore, a provision has not been made for income taxes payable upon remittance of such earnings, as management believes the amount would be immaterial.

The following table reconciles the U.S. Federal income tax rate to the Company's effective tax rate:

Year Ended April 30	2001	2000	1999

Statutory rate	35.0%	35.0%	35.0%
Increases (reductions) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	3.2%	3.1%	2.9%
Foreign income taxes, net of Federal income tax benefit	0.1%	0.1%	0.2%
Amortization of intangibles	3.6%	2.6%	0.3%
Nontaxable Federal income	(0.3%)	(0.3%)	(0.7%)
Other	(0.1%)	(1.6%)	0.3%
Effective rate	41.5%	38.9%	38.0%

A summary of deferred taxes follows:

April 30	2001	2000
Gross deferred tax assets:		
Accrued expenses	$ (31,923)	$ (17,729)
Allowance for credit losses	(18,406)	(8,800)
Current	(50,329)	(26,529)
Residual interest income	(42,048)	(22,193)
Deferred compensation	(20,439)	(18,509)
Depreciation	(8,128)	(12,879)
Amortization of intangibles	(3,258)	-
Noncurrent	(73,873)	(53,581)
Gross deferred tax liabilities:		
Mark-to-market adjustments	3,886	8,437
Accrued income	964	198
Current	4,850	8,635
Mortgage servicing rights	22,944	12,608
Depreciation	-	1,329
Noncurrent	22,944	13,937
Net deferred tax assets	$ (96,408)	$ (57,538)

ACQUISITIONS

During fiscal year 2001, the Company acquired several accounting firms. The purchased prices aggregated $54,443. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition. The excess of cost over fair value of net tangible assets acquired was $54,322 and is being amortized on a straight-line basis over periods up to 20 years.

On December 1, 1999, the Company completed the purchase of all the issued and outstanding shares of capital stock of OLDE for $850,000 in cash plus net tangible book value payments of $48,472. The purchase agreement also provides for possible future consideration payable for up to five years after the acquisition based upon revenues generated from certain online brokerage services and such consideration will be treated as purchase price when paid. The transaction was accounted for as a purchase and, accordingly, OLDE's results are included since the date of acquisition. Liabilities assumed of $1,774,156 were treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 2000. The excess of cost over fair value of net tangible assets acquired was $471,133 at April 30, 2000. Such is being amortized on a straight-line basis over periods up to 20 years. The acquisition was initially financed with short-term borrowings and a portion of these borrowings were repaid with the issuance of $500,000 in Senior Notes in the fourth quarter of fiscal 2000.

The following unaudited pro forma summary combines the consolidated results of operations of the Company and OLDE as if the acquisition had occurred on May 1, 1999 and 1998, after giving effect to certain adjustments, including amortization of intangible assets, increased interest expense on the acquisition debt and the related income tax effects. The pro forma information is presented for informational purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results.

April 30 (unaudited)	2000	1999
Revenues	$2,678,022	$ 2,007,422
Net earnings	218,275	172,566
Basic net earnings per share	$ 2.23	$ 1.73
Diluted net earnings per share	2.21	1.71

On August 2, 1999, the Company, through a subsidiary, RSM McGladrey, Inc. ("RSM McGladrey"), completed the purchase of substantially all of the non-attest assets of McGladrey & Pullen, LLP. The purchase price was $240,000 in cash payments over four years and the assumption of certain pension liabilities with a present value, at the date of acquisition, of $52,728. The purchase agreement also provides for possible future contingent consideration based on a calculation of earnings in year two, three and four after the acquisition and such consideration will be treated as purchase price when paid. In addition, the Company made cash payments of $65,453 for outstanding accounts receivable and work-in-process that have been repaid to the Company as RSM McGladrey collected these amounts in the ordinary course of business. The acquisition was accounted for as a purchase, and accordingly, RSM McGladrey's results are included since the date of acquisition. The present value of the additional cash payments due over four years, the present value of the pension liability and other liabilities assumed of $206,784, were treated as noncash investing activities in the consolidated statement of cash flows for the year ended April 30, 2000. The excess of cost over the fair value of net tangible assets acquired was $242,266 and is being amortized on a straight-line basis over periods up to 20 years.

During fiscal year 2000, the Company acquired several accounting firms. The purchase prices aggregated $18,494. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition. The excess of cost over fair value of net tangible assets acquired was $17,914 and is being amortized on a straight-line basis over periods up to 20 years.

On October 7, 1999, the Company acquired one of its major tax franchises. The Company issued 475,443 shares of its common stock from treasury, with a value of $21,000, for the purchase. The acquisition was accounted for as a purchase and, accordingly, its results are included since the date of acquisition. The issuance of Common Stock was treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 2000. The excess of cost over fair value of net tangible assets acquired was $34,919 and is being amortized on a straight-line basis over 15 years.

During fiscal year 1999, the Company acquired six regional accounting firms and several smaller market firms. The purchase prices aggregated $102,285. Each acquisition was accounted for as a purchase and, accordingly, results for each acquisition are included since the date of acquisition. The excess of cost over fair value of net tangible assets acquired was $98,012 and is being amortized on a straight-line basis over periods up to 20 years.

On March 5, 1999, the Company acquired Assurance Mortgage Corporation of America (now H&R Block Mortgage Corporation), a company engaged in the origination and sale of conventional mortgage loans. The Company issued 268,325 shares of its Common Stock from treasury, with a value of $11,860, for the purchase. The acquisition was accounted for as a purchase and, accordingly, its results are included since the date of acquisition. The issuance of Common Stock was treated as a noncash investing activity in the consolidated statement of cash flows for the year ended April 30, 1999. The excess of cost over fair value of net tangible assets acquired was $21,710 and is being amortized on a straight-line basis over 15 years.

During fiscal 2001, 2000 and 1999, the Company made other acquisitions which were accounted for as purchases. Their operations, which are not material, are included in the consolidated statements of earnings since the date of acquisition.

SALE OF SUBSIDIARIES

On December 31, 2000, the Company completed the sale of the assets of KSM Business Services, part of the Company's Business services segment. The Company recorded a gain before taxes of $2,040 on the transaction.

In March 2000, the Company sold certain assets related to its mortgage operations. The Company recorded a pretax loss of $14,501 on the transaction, included in other expenses on the consolidated statements of earnings for the year ended April 30, 2000.

On January 29, 1999, the Company completed the sale of its credit card portfolio. The Company recorded a $20,939 loss, net of taxes, on the transaction. The consolidated statements of earnings reflect the Company's Credit card operations segment as discontinued operations. Revenues from discontinued operations for the year ended April 30, 1999 were $24,143.

COMMITMENTS AND CONTINGENCIES

Substantially all of the operations of the Company's subsidiaries are conducted in leased premises. Most of the operating leases are for a one-year period with renewal options of one to three years and provide for fixed monthly rentals. Lease commitments at April 30, 2001, for fiscal 2002, 2003, 2004, 2005 and 2006 aggregated $148,915, $103,153, $65,114, $29,073 and $13,074, respectively, with no significant commitments

extending beyond that period of time. The Company's rent expense for the years 2001, 2000 and 1999 aggregated $156,325, $135,823 and $99,654, respectively.

Prior to March 31, 1999, the Company was obligated to purchase 60% of the mortgage loan volume which met certain criteria as established by the Company from a 40%-owned affiliate. The Company obtained majority ownership of this affiliate on March 31, 1999. From May 1, 1998 to March 31, 1999 the Company had purchased $312,173 of such loans.

The Company has commitments to fund mortgage loans to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments to fund loans amounted to $1,518,456 and $546,473 at April 30, 2001 and 2000, respectively. External market forces impact the probability of commitments being exercised, and therefore, total commitments outstanding do not necessarily represent future cash requirements.

At April 30, 2001, the Company maintained a $1,860,000 backup credit facility to support various financial activities conducted by its subsidiaries through a commercial paper program. The annual commitment fee required to support the availability of this facility is nine and one-half basis points per annum on the unused portion of the facility. Among other provisions, the credit agreement limits the Company's indebtedness.

The Company maintains a revolving credit facility in Canada to support a commercial paper program with varying borrowing levels throughout the year, reaching its peak during January through April for the Canadian tax season.

The Company is responsible for servicing mortgage loans for others of $12,329,021, subservicing loans of $5,872,902, and the master servicing of $538,169 previously securitized mortgage loans held in trust at April 30, 2001. Fiduciary bank accounts that are maintained on behalf of investors and for impounded collections were $279,381 at April 30, 2001. These bank accounts are not assets of the Company and are not reflected in the accompanying consolidated financial statements.

As of April 30, 2001, the Company had provided clearing organizations with bank letters of credit totaling $68,000 that satisfied margin deposit requirements of $63,812. These letters of credit are collateralized by customers' margin securities.

The Company is required, in the event of non-delivery of customers' securities owed to it by other broker-dealers or by its customers, to purchase identical securities in the open market. Such purchases could result in losses not reflected in the accompanying consolidated financial statements.

The Company monitors the credit standing of brokers and dealers and customers with whom it does business. In addition, the Company monitors the market value of collateral held and the market value of securities receivable from others, and seeks to obtain additional collateral if insufficient protection against loss exists.

The Company has commitments to fund certain attest entities, that are not consolidated, related to accounting firms it has acquired. The Company is also committed to loan up to $40,000 to McGladrey & Pullen, LLP on a revolving basis through July 31, 2004, subject to certain termination clauses. This revolving facility bears interest at prime rate plus four and one-half percent on the outstanding amount and a commitment fee of one-half percent per annum on the unused portion of the commitment.

The Company is involved in various legal proceedings which are ordinary routine litigation incident to its business, many of which are covered in whole or in part by insurance. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable.

Under the Company's Guarantee and Peace of Mind programs, the Company may be liable for certain interest, penalties and/or additional taxes due. The Company is effectively self-insured related to these risks and claims made in excess of self-insurance levels are fully insured by a third-party carrier.

At April 30, 2001 the Company has provided for the settlement of a class action lawsuit involving the Company's broker-dealer. In the settlement agreement, the Company admits to no wrongdoing.

In the regular course of business, the Company is subject to routine examinations by Federal, state and local taxing authorities. In management's opinion, the disposition of matters raised by such taxing authorities, if any, in such tax examinations would not have a material adverse impact on the Company's consolidated financial position or results of operations.

CompuServe, certain current and former officers and directors of CompuServe and the Company were named as defendants in six lawsuits pending before the state and Federal courts in Columbus, Ohio. All suits alleged similar violations of the Securities Act of 1933 based on assertions of omissions and misstatements of fact in connection with CompuServe's public filings related to its initial public offering in April 1996. One state lawsuit brought by the Florida State Board of Administration also alleged certain oral omissions and misstatements in connection with such offering. Relief sought in the lawsuits was unspecified, but included pleas for rescission and damages.

In July 2000, the class representatives and the defendants in the class action pending in state court, by their authorized counsel, entered into a Stipulation of Settlement, pursuant to which the defendants were required to pay a gross settlement amount of $9,500 in exchange for dismissal of the class action suit and a release of all claims. The court preliminarily approved the settlement in August 2000 and notices to the class were mailed and published. The fairness hearing relating to the settlement was held on November 30, 2000, and the court issued its order approving the settlement. Payment of plaintiffs' attorneys' fees and expenses were to be paid out of the gross settlement fund. The gross settlement fund was paid in its entirety by the Company's insurance carrier. The Stipulation and payment of the gross settlement fund are not admissions of the validity of any claim or any fact alleged by the plaintiffs and defendants continue to deny any wrongdoing and any liability. The Stipulation states that the defendants consider it desirable to settle to avoid further expense, inconvenience, and delay, and put to rest all controversy concerning all claims.

The Florida State Board of Administration opted out of the class action settlement and that litigation continues separately from the state court class action. The parties have reached a settlement that will dispose of the case in its entirety with no material adverse impact on the Company's consolidated financial position or results of operations.

FINANCIAL INSTRUMENTS

The Company utilizes forward contracts on FNMA mortgage-backed securities to reduce the interest rate risk related to its fixed rate mortgage portfolio. The position on certain or all of the fixed rate mortgages is closed, on standard Public Securities Association ("PSA") settlement dates, when the Company enters into a forward commitment to sell those mortgages or decides to securitize the mortgages. These instruments are carried at market value and changes in the fair market value are recorded in revenues on the consolidated statements of earnings. There were no FNMA contracts at April 30, 2001.

The Company purchases these instruments from certain broker-dealer counterparties. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company is exposed to on-balance sheet credit risk related to its receivables. Mortgage loans made to subprime borrowers present a higher level of risk of default than conforming loans. These loans also involve additional liquidity risk due to a more limited secondary market than conforming loans. While the Company believes that the underwriting procedures and appraisal processes it employs enable it to mitigate these risks, no assurance can be given that such procedures or processes will be adequate protection against these risks. The Company is exposed to off-balance sheet credit risk related to mortgage loan receivables which the Company has committed to fund.

SUBSEQUENT EVENT (UNAUDITED)

On June 20, 2001, the Company's Board of Directors declared a two-for-one stock split of its Common Stock in the form of a 100% stock distribution effective August 1, 2001, to shareholders of record as of the close of business on July 10, 2001. Common Stock outstanding, giving retroactive effect to the stock split at April 30, 2001 and 2000 would be 217,945,398 shares. Pro forma Common Stock and retained earnings at April 30, 2001 would be $2,179 and $1,449,022, respectively.

34

Pro forma net earnings per share are as follows:

Year Ended April 30	2001	2000	1999
Basic net earning per share:			
Net earnings from continuing operations	$ 1.51	$ 1.29	$ 1.19
Net loss from discontinued operations	-	-	(.11)
Cumulative effect of change in accounting principle	.02	-	-
Net earnings	$ 1.53	$ 1.29	$ 1.08
Diluted net earnings per share:			
Net earnings from continuing operations	$ 1.50	$ 1.27	$ 1.18
Net loss from discontinued operations	-	-	(.11)
Cumulative effect of change in accounting principle	.02	-	-
Net earnings	$ 1.52	$ 1.27	$ 1.07

QUARTERLY FINANCIAL DATA (UNAUDITED)

	Fiscal 2001 Quarter Ended			
	April 30, 2001	Jan. 31, 2001	Oct. 31, 2000	July 31, 2000
Revenues	$1,703,991	$ 656,000	$ 337,474	$ 304,110
Earnings (loss) before income taxes (benefits)	641,635	7,792	(86,356)	(89,993)
Taxes (benefits) on earnings	267,946	3,332	(36,701)	(38,247)
Net earnings (loss) before change in accounting	373,689	4,460	(49,655)	(51,746)
Cumulative effect of change in accounting principle	4,414	-	-	-
Net earnings (loss)	$ 378,103	$ 4,460	$ (49,655)	$ (51,746)
Basic net earnings per share:				
Net earnings (loss) before change in accounting	$ 4.08	$ .05	$ (.54)	$ (.55)
Net earnings (loss)	$ 4.13	$ .05	$ (.54)	$ (.55)
Diluted net earnings per share:				
Net earnings (loss) before change in accounting	$ 4.00	$ .05	$ (.54)	$ (.55)
Net earnings (loss)	$ 4.05	$ .05	$ (.54)	$ (.55)

	Fiscal 2000 Quarter Ended			
	April 30, 2000	Jan. 31, 2000	Oct. 31, 1999	July 31, 1999
Revenues	$1,607,930	$ 512,507	$ 209,946	$ 121,560
Earnings (loss) before income taxes (benefits)	557,743	(13,523)	(72,157)	(59,797)
Taxes (benefits) on earnings	216,962	(6,448)	(27,420)	(22,723)

Net earnings (loss) before change in accounting	340,781	(7,075)	(44,737)	(37,074)
Cumulative effect of change in accounting principle	-	-	-	-
Net earnings (loss)	$ 340,781	$ (7,075)	$ (44,737)	$ (37,074)
Basic net earnings per share:				
Net earnings (loss) before change in accounting	$ 3.47	$ (.07)	$ (.46)	$ (.38)
Net earnings (loss)	$ 3.47	$ (.07)	$ (.46)	$ (.38)
Diluted net earnings per share:				
Net earnings (loss) before change in accounting	$ 3.45	$ (.07)	$ (.46)	$ (.38)
Net earnings (loss)	$ 3.45	$ (.07)	$ (.46)	$ (.38)

The accumulation of four quarters in fiscal 2001 and 2000 for net earnings per share does not equal the related per share amounts for the years ended April 30, 2001 and 2000 due to the repurchase of treasury shares, the timing of the exercise of stock options, and the antidilutive effect of stock options in the first three quarters.

Quarterly results for the fiscal year ended April 30, 2001 in the table above have been adjusted to reflect the implementation of SAB 101. The cumulative effect of this change for periods prior to April 30, 2001 of $(1,185), net of income taxes, is included in the third quarter of fiscal 2001. There is no year-to-date effect of implementation. The effect of the implementation of SAB 101 on third quarter revenues and net earnings before the change in accounting principle follows:

	SAB 101 Implementation	
	3 months ended Jan. 31, 2001	
	10-Q Reported	Restated
Revenues	$661,354	$656,000
Net earnings before change in accounting	5,645	4,460

SEGMENT INFORMATION

The principal business activity of the Company's operating subsidiaries is providing tax and financial services to the general public. Management has determined the reportable segments identified below according to differences in types of services, geographic locations, and how operational decisions are made. In the third quarter of fiscal 2001, management re-evaluated its reportable operating segments to more closely reflect how the business is now analyzed and evaluated. As a result, the Company's Financial services segment is now separated into Mortgage operations and Investment services. Geographical information is presented within the segment data below. A majority of the foreign countries in which subsidiaries of the Company operate, which are individually immaterial, are included in International tax operations. Included below is the financial information on each segment that is used by management to evaluate the segment's results. The Company operates in the following reportable segments:

U.S. TAX OPERATIONS: This segment is primarily engaged in providing tax return preparation, filing, and related services to the general public in the United States. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. This segment participates in the refund anticipation loan products offered by a third-party lending institution to tax clients. This segment includes the Company's tax preparation software - Kiplinger TaxCut(R) from H&R Block, and other personal productivity software offered to the general public and offers online tax preparation through a tax preparer (whereby the client fills out an online tax organizer and sends it to a tax preparer for preparation), online do-it-yourself-tax preparation, online professional tax review and online tax advice to the general public through the hrblock.com website. Revenues of this segment are seasonal in nature.

INTERNATIONAL TAX OPERATIONS: This segment is primarily engaged in providing local tax return preparation, filing, and related services to the general public in Canada, Australia and the United Kingdom. In addition, International tax operations has franchise offices in 9 countries that prepare U.S. tax returns for U.S. citizens living abroad. Tax-related service revenues include fees from company-owned tax offices and royalties from franchised offices. Revenues of this segment are seasonal in nature.

MORTGAGE OPERATIONS: This segment is primarily engaged in the origination, servicing, and sale of nonconforming and conforming mortgage loans to the general public in the United States. This segment mainly offers a flexible product line to borrowers who are creditworthy but do not meet traditional underwriting criteria through a network of 16,453 mortgage brokers. Conforming mortgage loan products, as well as the same flexible product line available through brokers are offered through 22 H&R Block Financial Centers and 9 H&R Block Mortgage Corporation retail offices.

INVESTMENT SERVICES: This segment is primarily engaged in offering full service investment opportunities to the general public. This segment essentially consists of H&R Block Financial Advisors, Inc. (formally OLDE Discount Corporation), a full-service discount securities broker. Financial planning and investment advice are offered through 105 H&R Block Financial Centers, 75 H&R Block Financial Advisors offices and 345 tax offices, and stocks, bonds, mutual funds and other products and securities are offered through a nationwide network of 1,690 registered representatives, at the same locations.

BUSINESS SERVICES: This segment is primarily engaged in providing accounting, tax and consulting services to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals. This segment offers services through 100 offices located throughout the United States. Revenues of this segment are seasonal in nature.

IDENTIFIABLE ASSETS: Identifiable assets are those assets, including the excess of cost over fair value of net tangible assets acquired, associated with each reportable segment. The remaining assets are classified as corporate assets and consist primarily of cash, marketable securities and corporate equipment.

Information concerning the Company's operations by reportable segment as of and for the years ended April 30, 2001, 2000 and 1999 is as follows:

	2001	2000	1999
REVENUES:			
U.S. tax operations	$ 1,654,123	$ 1,431,085	$ 1,258,269
International tax operations	79,568	81,518	74,714
Mortgage operations	415,802	355,429	255,944
Investment services	472,425	268,376	3,989
Business services	373,820	310,867	47,341
Unallocated corporate	5,837	4,668	4,408

Total revenues	$ 3,001,575	$ 2,451,943	$ 1,644,665
EARNINGS FROM CONTINUING OPERATIONS:			
U.S. tax operations	$ 433,514	$ 319,992	$ 314,113
International tax operations	7,678	4,869	2,514
Mortgage operations	139,036	88,574	62,749
Investment services	12,689	41,226	(1,623)
Business services	17,045	17,111	7,121
Unallocated corporate	(37,527)	(22,476)	(20,729)
Interest expense on acquisition debt	(98,759)	(56,118)	(17,757)
	473,676	393,178	346,388
Investment income, net	5,977	9,840	32,234
Intercompany interest	(6,575)	9,248	4,919
Earnings from continuing operations before income taxes	$ 473,078	$ 412,266	$ 383,541
DEPRECIATION AND AMORTIZATION:			
U.S. tax operations	$ 73,604	$ 66,523	$ 49,380
International tax operations	5,011	5,494	5,741
Mortgage operations	22,715	20,311	15,764
Investment services	65,384	25,663	204
Business services	38,772	29,060	3,340
Unallocated corporate	122	167	176
Total depreciation and amortization	$ 205,608	$ 147,218	$ 74,605
IDENTIFIABLE ASSETS:			
U.S. tax operations	$ 334,030	$ 348,726	$ 268,650
International tax operations	42,627	59,725	55,684
Mortgage operations	938,379	685,292	1,033,261
Investment services	2,011,517	3,678,614	5,648
Business services	575,998	517,134	146,252
Unallocated corporate	219,073	423,378	400,681
Total assets	$ 4,121,624	$ 5,712,869	$ 1,910,176
CAPITAL EXPENDITURES:			
U.S. tax operations	$ 42,260	$ 95,338	$ 72,325
International tax operations	2,328	3,641	7,857
Mortgage operations	34,423	15,915	8,754
Investment services	3,557	21,582	611
Business services	9,762	9,065	1,778
Unallocated corporate	81	212	80
Total capital expenditures	$ 92,411	$ 145,753	$ 91,405

CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Block Financial Corporation ("BFC") is an indirect, wholly owned subsidiary of the Company. BFC is the Issuer and the Company is the Guarantor of the $250,000 6 3/4 % Senior Notes issued on October 21, 1997 and of the $500,000 8 1/2 % Senior Notes issued on April 13, 2000. The Company's guarantee is full and unconditional. The following condensed consolidating financial statements present separate information for BFC, for the Company and for the Company's other subsidiaries, and should be read in conjunction with the consolidated financial statements of the Company.

These condensed consolidating financial statements have been prepared using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Company's investment in subsidiaries account. The elimination entries eliminate investments in subsidiaries, related stockholder's equity and other intercompany balances and transactions.

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
Year Ended April 30, 2001

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ -	$ 1,087,471	$ 1,926,020	$ (11,916)	$ 3,001,575
Expenses:					
Compensation & benefits	-	299,263	893,031	-	1,192,294
Occupancy & equipment	-	56,093	227,088	-	283,181
Interest	-	223,816	18,735	-	242,551
Depreciation & amortization	-	90,660	114,948	-	205,608
Marketing & advertising	-	45,440	98,576	(457)	143,559
Supplies, freight & postage	-	20,949	49,491	-	70,440
Other	-	240,474	170,086	(11,684)	398,876
	-	976,695	1,571,955	(12,141)	2,536,509
Operating earnings	-	110,776	354,065	225	465,066
Other income, net	480,209	(29)	8,041	(480,209)	8,012
Earnings before income taxes	480,209	110,747	362,106	(479,984)	473,078
Taxes on earnings	199,047	61,814	134,430	(198,961)	196,330
Net earnings from continuing operations before change in accounting principle	281,162	48,933	227,676	(281,023)	276,748
Change in accounting principle	-	4,414	-	-	4,414
Net earnings	$ 281,162	$ 53,347	$ 227,676	$ (281,023)	$ 281,162

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
Year Ended April 30, 2000

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ -	$ 761,908	$ 1,701,325	$ (11,290)	$ 2,451,943
Expenses:					
Compensation & benefits	-	199,124	764,412	-	963,536
Occupancy & equipment	-	29,264	223,907	-	253,171
Interest	-	156,123	(1,096)	-	155,027
Depreciation & amortization	-	47,510	99,708	-	147,218
Marketing & advertising	-	49,099	91,584	-	140,683
Supplies, freight & postage	-	11,490	53,109	-	64,599
Other	-	158,200	178,711	(11,290)	325,621
	-	650,810	1,410,335	(11,290)	2,049,855
Operating earnings	-	111,098	290,990	-	402,088
Other income, net	412,266	113	10,065	(412,266)	10,178
Earnings before income taxes	412,266	111,211	301,055	(412,266)	412,266
Taxes on earnings	160,371	52,494	107,877	(160,371)	160,371
Net earnings	$ 251,895	$ 58,717	$ 193,178	$ (251,895)	$ 251,895

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
Year Ended April 30, 1999

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Total revenues	$ -	$ 386,938	$ 1,270,441	$ (12,714)	$ 1,644,665
Expenses:					
Compensation & benefits	-	71,670	539,196	-	610,866
Occupancy & equipment	-	10,740	171,961	-	182,701
Interest	-	72,034	(2,696)	-	69,338
Depreciation & amortization	-	16,604	58,001	-	74,605
Marketing & advertising	-	18,512	71,544	-	90,056
Supplies, freight & postage	-	4,821	52,336	-	57,157
Other	-	123,138	94,444	(12,714)	204,868
	-	317,519	984,786	(12,714)	1,289,591
Operating earnings	-	69,419	285,655	-	355,074
Other income, net	346,772	(3,777)	32,244	(346,772)	28,467
Earnings before income taxes	346,772	65,642	317,899	(346,772)	383,541
Taxes on earnings	131,406	23,933	121,813	(131,406)	145,746

Net earnings from continuing operations	215,366	41,709	196,086	(215,366)	237,795
Discontinued operations	-	(22,429)	-	-	(22,429)
Net earnings	$ 215,366	$ 19,280	$ 196,086	$ (215,366)	$ 215,366

CONDENSED CONSOLIDATING BALANCE SHEET
April 30, 2001

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ -	$ 167,139	$ 104,674	$ -	$ 271,813
Receivables from customers, brokers, dealers and clearing organizations	-	1,310,804	-	-	1,310,804
Receivables	-	172,409	200,814	-	373,223
Excess of cost over fair value of net tangible assets acquired	-	573,691	478,135	-	1,051,826
Investment in subsidiaries	2,452,643	215	262	(2,452,643)	477
Other assets	-	720,004	394,431	(954)	1,113,481
Total assets	$ 2,452,643	$ 2,944,262	$ 1,178,316	$(2,453,597)	$ 4,121,624
Notes payable	$ -	$ -	$ -	$ -	$ -
Accounts payable to customers, brokers and dealers	-	1,058,000	-	-	1,058,000
Long-term debt	-	746,250	124,724	-	870,974
Other liabilities	4,763	228,847	782,058	3,241	1,018,909
Net intercompany advances	1,274,139	637,487	(1,907,206)	(4,420)	-
Stockholders' equity	1,173,741	273,678	2,178,740	(2,452,418)	1,173,741
Total liabilities and stockholders' equity	$ 2,452,643	$ 2,944,262	$ 1,178,316	$(2,453,597)	$ 4,121,624

CONDENSED CONSOLIDATING BALANCE SHEET
April 30, 2000

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Cash & cash equivalents	$ -	$ 256,823	$ 123,078	$ -	$ 379,901
Receivables from customers, brokers, dealers and clearing organizations	-	2,857,379	-	-	2,857,379
Receivables	-	257,987	176,735	-	434,722
Excess of cost over fair value of net tangible assets acquired	-	620,780	474,294	-	1,095,074
Investment in subsidiaries	2,188,835	615	903	(2,188,835)	1,518
Other assets	-	565,741	377,867	667	944,275
Total assets	$ 2,188,835	$ 4,559,325	$ 1,152,877	$(2,188,168)	$ 5,712,869
Notes payable	$ -	$ 283,797	$ -	$ -	$ 283,797
Accounts payable to customers, brokers and dealers	-	2,570,200	-	-	2,570,200
Long-term debt	-	745,600	126,796	-	872,396
Other liabilities	4,763	174,697	604,483	(16,056)	767,887
Net intercompany advances	965,483	559,843	(1,542,049)	16,723	-
Stockholders' equity	1,218,589	225,188	1,963,647	(2,188,835)	1,218,589
Total liabilities and stockholders' equity	$ 2,188,835	$ 4,559,325	$ 1,152,877	$(2,188,168)	$ 5,712,869

CONDENSED CONSOLIDATING BALANCE SHEET
April 30, 1999

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block

Cash & cash equivalents	$ -	$ 16,026	$ 177,214	$ -	$ 193,240
Receivables	-	686,602	56,699	-	743,301
Excess of cost over fair value of net tangible assets acquired	-	189,784	215,750	-	405,534
Investment in subsidiaries	1,902,665	1,490	226	(1,902,665)	1,716
Other assets	-	229,016	337,369	-	566,385
Total assets	$ 1,902,665	$ 1,122,918	$ 787,258	$(1,902,665)	$ 1,910,176
Notes payable	$ -	$ 71,939	$ -	$ -	$ 71,939
Long-term debt	-	249,725	-	-	249,725
Other liabilities	4,764	84,029	437,732	-	526,525
Net intercompany advances	835,914	552,301	(1,388,215)	-	-
Stockholders' equity	1,061,987	164,924	1,737,741	(1,902,665)	1,061,987
Total liabilities and stockholders' equity	$ 1,902,665	$ 1,122,918	$ 787,258	$(1,902,665)	$ 1,910,176

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended April 30, 2001

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 2,235	$ (186,171)	$ 479,451	$ -	$ 295,515
Cash flows from investing activities:					
Purchases of available-for-sale securities	-	-	(10,636)	-	(10,636)
Maturities of available-for-sale securities	-	16,024	5,500	-	21,524
Sales of available-for-sale securities	-	319,620	36,572	-	356,192
Purchases of property and equipment, net	-	(33,004)	(57,029)	-	(90,033)
Payments made for business acquisitions	-	-	(21,143)	-	(21,143)
Proceeds from sale of subsidiary	-	-	23,200	-	23,200
Net intercompany advances	308,656	77,644	(386,300)	-	-
Other, net	-	-	(20,497)	-	(20,497)
Net cash provided by (used in) investing activities	308,656	380,284	(430,333)	-	258,607
Cash flows from financing activities:					
Repayments of notes payable	-	(18,219,741)	-	-	(18,219,741)
Proceeds from issuance of notes payable	-	17,935,944	-	-	17,935,944
Payments on acquisition debt	-	-	(68,743)	-	(68,743)
Dividends paid	(108,374)	-	-	-	(108,374)
Payments to acquire treasury shares	(222,895)	-	-	-	(222,895)
Proceeds from stock options exercised	19,550	-	-	-	19,550
Other, net	828	-	1,221	-	2,049
Net cash used in financing activities	(310,891)	(283,797)	(67,522)	-	(662,210)
Net decrease in cash & cash equivalents	-	(89,684)	(18,404)	-	(108,088)
Cash & cash equivalents at beginning of the year	-	256,823	123,078	-	379,901
Cash & cash equivalents at end of the year	$ -	$ 167,139	$ 104,674	$ -	$ 271,813

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended April 30, 2000

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 3,736	$ 176,517	$ 310,325	$ -	$ 490,578
Cash flows from investing activities:					
Purchases of available-for-sale securities	-	-	(14,281)	-	(14,281)
Maturities of available-for-sale securities	-	10,845	57,416	-	68,261
Sales of available-for-sale securities	-	191,839	19,997	-	211,836
Purchases of property and equipment, net	-	(36,481)	(105,375)	-	(141,856)
Payments made for business acquisitions	-	(817,587)	(154,215)	-	(971,802)
Net intercompany advances	119,697	8,081	(127,778)	-	-
Other, net	-	(75)	(6,430)	-	(6,505)
Net cash used in investing activities	119,697	(643,378)	(330,666)	-	(854,347)
Cash flows from financing activities:					
Repayments of notes payable	-	(50,800,661)	-	-	(50,800,661)
Proceeds from issuance of notes payable	-	51,012,519	-	-	51,012,519
Proceeds from issuance of long-term debt	-	495,800	-	-	495,800
Payments on acquisition debt	-	-	(4,730)	-	(4,730)
Dividends paid	(105,480)	-	-	-	(105,480)
Payments to acquire treasury shares	(50,654)	-	-	-	(50,654)
Proceeds from stock options exercised	36,958	-	-	-	36,958

Other, net	(4,257)	-	(29,065)	-	(33,322)
Net cash provided by (used in) financing activities	(123,433)	707,658	(33,795)	-	550,430
Net increase (decrease) in cash & cash equivalents	-	240,797	(54,136)	-	186,661
Cash & cash equivalents at beginning of the year	-	16,026	177,214	-	193,240
Cash & cash equivalents at end of the year	$ -	$ 256,823	$ 123,078	$ -	$ 379,901

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended April 30, 1999

	H&R Block, Inc. (Guarantor)	BFC (Subsidiary Issuer)	Other Subsidiaries	Eliminations	Consolidated H&R Block
Net cash provided by operating activities	$ 4,315	$ (77,843)	$ 312,802	$ -	$ 239,274
Cash flows from investing activities:					
Purchases of available-for-sale securities	-	-	(251,627)	-	(251,627)
Maturities of available-for-sale securities	-	8,161	211,239	-	219,400
Sales of available-for-sale securities	-	90,126	432,126	-	522,252
Purchases of property and equipment, net	-	(6,499)	(83,283)	-	(89,782)
Payments made for business acquisitions	-	-	(123,657)	-	(123,657)
Net intercompany advances	506,211	657,263	(1,163,474)	-	-
Other, net	-	(3,460)	(22,183)	-	(25,643)
Net cash provided by (used in) investing activities	506,211	745,591	(1,000,859)	-	250,943
Cash flows from financing activities:					
Repayments of notes payable	-	(17,276,595)	-	-	(17,276,595)
Proceeds from issuance of notes payable	-	16,593,978	-	-	16,593,978
Dividends paid	(95,004)	-	-	-	(95,004)
Payments to acquire treasury shares	(492,945)	-	-	-	(492,945)
Proceeds from stock options exercised	73,481	-	-	-	73,481
Other, net	3,942	-	(4,690)	-	(748)
Net cash used in financing activities	(510,526)	(682,617)	(4,690)	-	(1,197,833)
Net decrease in cash & cash equivalents	-	(14,869)	(692,747)	-	(707,616)
Cash & cash equivalents at beginning of the year	-	30,895	869,961	-	900,856
Cash & cash equivalents at end of the year	$ -	$ 16,026	$ 177,214	$ -	$ 193,240

MANAGEMENT'S REPORT & REPORT OF INDEPENDENT ACCOUNTANTS

MANAGEMENT'S REPORT

The financial information in this Annual Report, including the consolidated financial statements, has been prepared by the management of H&R Block, Inc. Management believes the information presented in the Annual Report is consistent with the financial statements, the financial statements are prepared in accordance with generally accepted accounting principles, and the financial statements do not contain material misstatements due to fraud or error. Where appropriate, the financial statements reflect management's best estimates and judgments.

Management also is responsible for maintaining a system of internal accounting controls with the objectives of providing reasonable assurance that the Company's assets are safeguarded against material loss from unauthorized use or disposition, and that authorized transactions are properly recorded to permit the preparation of accurate financial data. However, limitations exist in any system of internal controls based on a recognition that the cost of the system should not exceed its benefits. The Company believes its system of accounting controls, of which its internal auditing function is an integral part, accomplishes the stated objectives.

PricewaterhouseCoopers LLP, independent accountants, audited H&R Block's 2001 and 2000 consolidated financial statements and issued opinions thereon. Their audits were made in accordance with generally accepted auditing standards and included an objective, independent review of the system of internal controls to the extent necessary to express an opinion on the financial statements.

The Audit Committee of the Board of Directors, composed of outside directors, meets periodically with management, the independent accountants and the internal auditor to review matters relating to the Company's annual financial statements, internal audit activities, internal accounting controls and non-audit services provided by the independent accountants. The independent accountants and the internal auditor have full access to the Audit Committee and meet with it, both with and without management present, to discuss the scope and results of their audits including internal controls, audit and financial matters.

/s/ Mark A. Ernst

Mark A. Ernst
President and Chief Executive Officer

/s/ Frank J. Cotroneo

Frank J. Cotroneo
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors and Shareholders
H&R Block, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of H&R Block, Inc. and its subsidiaries (the "Company") at April 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Kansas City, Missouri
June 19, 2001

COMMON STOCK DATA

	Stock Price High	Stock Price Low	Cash Dividend Paid per Share
2000 FISCAL YEAR:			
Quarter ended 7/31/99	$ 58.88	$ 45.50	$ .25
Quarter ended 10/31/99	59.50	38.00	.275
Quarter ended 1/31/00	49.50	39.88	.275
Quarter ended 4/30/00	49.50	39.50	.275
2001 FISCAL YEAR:			
Quarter ended 7/31/00	$ 42.56	$ 26.94	$ .275
Quarter ended 10/31/00	37.38	31.31	.30
Quarter ended 1/31/01	44.06	32.81	.30
Quarter ended 4/30/01	55.00	41.80	.30

Traded on the New York Stock Exchange; Ticker Symbol: HRB

SELECTED FINANCIAL DATA

Amounts in thousands, except per share amounts and number of shareholders

April 30	2001	2000	1999	1998	1997
FOR THE YEAR:					
Total revenues	$3,001,575	$2,451,943	$1,644,665	$1,269,981	$1,066,410
Net earnings from continuing operations	$ 276,748	$ 251,895	$ 237,795	$ 183,788	$ 148,132
Net earnings	$ 281,162	$ 251,895	$ 215,366	$ 392,130	$ 47,755
AT YEAR END:					
Total assets	$4,121,624	$5,712,869	$1,910,176	$2,904,083	$1,707,058
Cash, cash equivalents and marketable securities	$ 596,396	$ 681,567	$ 420,649	$1,590,192	$ 539,107
Long-term debt	$ 870,974	$ 872,396	$ 249,725	$ 249,675	$ -
Stockholders' equity	$1,173,741	$1,218,589	$1,061,987	$1,341,632	$ 999,097
Shares outstanding	91,804	98,035	97,629	106,981	104,067
Number of shareholders	31,523	33,557	34,624	31,177	33,517
MEASUREMENTS:					
Per basic share of common stock:					
Net earnings from continuing operations	$ 3.01	$ 2.57	$ 2.38	$ 1.75	$ 1.42
Net earnings	$ 3.06	$ 2.57	$ 2.16	$ 3.74	$ .46
Per diluted share of common stock:					
Net earnings from continuing operations	$ 2.99	$ 2.55	$ 2.36	$ 1.71	$ 1.40
Net earnings	$ 3.04	$ 2.55	$ 2.14	$ 3.65	$ .45
Other per share data:					
Cash dividends declared	$ 1.17 1/2	$ 1.07 1/2	$ .95	$ .80	$ 1.04
Net book value	$ 12.79	$ 12.43	$ 10.88	$ 12.54	$ 9.60
Return on total revenues	9.2%	10.3%	14.5%	14.5%	13.9%
Return on stockholders' equity	29.7%	25.1%	22.0%	38.1%	5.2%

EXHIBIT 21

SUBSIDIARIES OF H&R BLOCK, INC.

The following is a list of the direct and indirect subsidiaries of H&R Block, Inc., a Missouri corporation. All active subsidiaries do business under their corporate names listed below or close derivatives thereof:

	NAME	JURISDICTION IN WHICH ORGANIZED
1)	Block Investment Corporation	Delaware (1)
2)	H&R Block Group, Inc.	Delaware (1)
3)	HRB Management, Inc.	Missouri (2)
4)	H&R Block Tax and Financial Services Limited	United Kingdom (3)
5)	Companion Insurance, Ltd	Bermuda (3)
6)	H&R Block Services, Inc.	Missouri (2)
7)	H&R Block Tax Services, Inc.	Missouri (4)
8)	H&R Block of Dallas, Inc.	Texas (5)
9)	HRB Partners, Inc.	Delaware (6)
10)	HRB Texas Enterprises, Inc.	Missouri (5)
11)	H&R Block and Associates, L.P.	Delaware (7)
12)	BWA Advertising, Inc.	Missouri (5)
13)	H&R Block (Guam), Inc.	Guam (5)
14)	H&R Block Enterprises (Guam), Inc.	Guam (8)
15)	H&R Block Canada, Inc.	Canada (5)
16)	H&R Block (Nova Scotia), Incorporated	Nova Scotia (9)
17)	Cashplan Systems, Inc.	British Columbia(9)
18)	H&R Block Enterprises, Inc.	Missouri (5)
19)	H&R Block Tax Company, LLC	Missouri (10)
20)	H&R Block Support Services, LLC	Missouri (10)
21)	H&R Block Eastern Tax Services, Inc.	Missouri (4)
22)	H&R Block Eastern Enterprises, Inc.	Missouri (11)
23)	H&R Block Eastern Tax Company, LLC	Missouri (12)
24)	H&R Block Eastern Support Services, LLC	Missouri (12)
25)	HRB Royalty, Inc.	Delaware (4)
26)	H&R Block Limited	New South Wales (13)
27)	H&R Block Acquisition, Inc.	Missouri (4)
28)	Block Financial Corporation	Delaware (2)
29)	Option One Mortgage Corporation	California (14)
30)	Option One Mortgage Acceptance Corporation	Delaware (15)
31)	Option One Mortgage Securities Corp	Delaware (15)
32)	Premier Trust Deed Services, Inc.	California (15)
33)	Premier Mortgage Services of Washington, Inc.	Washington (15)
34)	H&R Block Mortgage Corporation	Ontario (15)
35)	H&R Block Mortgage Corporation	Massachusetts (15)
36)	Option One Direct Insurance Agency, Inc.	California (15)
37)	Block Mortgage Finance, Inc.	Delaware (15)
38)	Option One Loan Warehouse Corporation	Delaware (15)
39)	Companion Mortgage Corporation	Delaware (14)

40)	Franchise Partner, Inc.	Nevada (14)
41)	H&R Block Investments, Inc.	Delaware (14)
42)	H&R Block Insurance Services, Inc.	Delaware (14)
43)	NCS Mortgage Services, L.L.C	Georgia (16)
44)	National Consumer Services Corp. II, L.L.C	Georgia (16)
45)	OLDE Financial Corporation	Michigan (14)
46)	H&R Block Financial Advisors, Inc.	Michigan (17)
47)	OLDE Discount of Canada	Canada (18)

48) C.U. Brokerage Services, Inc...........................Michigan (17)
49) OLDE Asset Management, Inc.............................Michigan (17)
50) OLDE Clearing Corporation..............................Delaware (17)
51) Smart Travel, Inc......................................Michigan (17)
52) Realty Acquisitions, Inc...............................Michigan (17)
53) OLDE Property Corporation..............................Michigan (17)
54) OLDE Realty Corporation................................Michigan (17)
55) 420 South Garden, Inc..................................Florida (19)
56) 44 East Central..Florida (19)
57) 4240 Hunt Road, Inc....................................Ohio (19)
58) 3340 Gallows Road, Inc.................................Michigan (19)
59) 450 Silver Spur, Inc...................................Michigan (19)
60) 4230 West Green Oaks, Inc..............................Michigan (19)
61) 3414 Shawnee Mission, Inc..............................Michigan (19)
62) OLDE Equipment Corporation.............................Michigan (17)
63) H&R Block Financial Corporation........................Michigan (17)
64) American Brokerage Services, Inc.......................Vermont (17)
65) Financial Marketing Services, Inc......................Michigan (14)
66) 2430472 Nova Scotia Co.................................Nova Scotia (20)
67) Sumner Canadian Direct Holdings Company................Canada (20)
68) North American Printing Co.............................Canada (21)
69) HRB Business Services, Inc.............................Delaware (2)
70) RSM McGladrey, Inc.....................................Delaware (22)
71) Toback, Inc..Arizona (23)
72) McGladrey Contract Business Services, L.L.C............Minnesota (24)
73) Birchtree Financial Services, Inc......................Oklahoma (23)
74) Birchtree Insurance Agency, Inc........................Missouri (25)
75) FERS Business Services, Inc............................Delaware (23)
76) Pension Resources, Inc.................................Illinois (26)
77) Freed Maxick ABL Services, Inc.........................Delaware (23)
78) DMJK Business Services, Inc............................Missouri (22)
79) Practice Development Institute, Inc. ....Delaware (22)
80) FERS Personal Financial Services, Inc..................Delaware (22)
81) FM Business Services, Inc..............................Delaware (22)
82) WS Business Services, Inc..............................Delaware (22)
83) Rex Investments, Inc...................................Texas (27)
84) WSB-NEV, L.L.C...Nevada (28)
85) W-1 Holdings, L.L.C....................................Texas (28)
86) Wallace Sanders Business Consulting, L.P...............Texas (29)
87) C.W. Amos Business Services, Inc. ....Delaware (22)
88) C.W. Amos Investment Advisors, L.L.C...................Maryland (30)
89) RP Business Services, Inc..............................Delaware (22)

90) HRB Retail Services, Inc...............................Delaware (2)

Notes to Subsidiaries of H&R Block, Inc.:

(1) Wholly owned subsidiary of H&R Block, Inc.
(2) Wholly owned subsidiary of H&R Block Group, Inc.
(3) Wholly owned subsidiary of HRB Management, Inc.
(4) Wholly owned subsidiary of H&R Block Services, Inc.
(5) Wholly owned subsidiary of H&R Block Tax Services, Inc.
(6) Wholly owned subsidiary of H&R Block of Dallas, Inc.
(7) Limited partnership in which H&R Block Texas Enterprises, Inc. is a 1% general partner and HRB Partners, Inc. is a 99% limited partner
(8) Wholly owned subsidiary of H&R Block (Guam), Inc.
(9) Wholly owned subsidiary of H&R Block Canada, Inc.
(10) Limited liability company in which H&R Block Tax Services, Inc. has a 100% membership interest
(11) Wholly owned subsidiary of H&R Block Eastern Tax Services, Inc.
(12) Limited liability company in which H&R Block Eastern Tax Services, Inc. has a 100% membership interest
(13) Wholly owned subsidiary of HRB Royalty, Inc.

(14) Wholly owned subsidiary of Block Financial Corporation
(15) Wholly owned subsidiary of Option One Mortgage Corporation
(16) Limited liability company in which Block Financial Corporation has a 96.25% membership interest and Companion Mortgage Corporation has a 3.75% membership interest
(17) Wholly owned subsidiary of OLDE Financial Corporation
(18) Wholly owned subsidiary of H&R Block Financial Advisors, Inc.
(19) Wholly owned subsidiary of OLDE Realty Corporation
(20) Wholly owned subsidiary of Financial Marketing Services, Inc.
(21) Company in which Sumner Canadian Direct Holdings Company owns 140,000 shares and Financial Marketing Services, Inc. owns 4,200 shares
(22) Wholly owned subsidiary of HRB Business Services, Inc.
(23) Wholly owned subsidiary of RSM McGladrey, Inc.
(24) Limited liability company in which RSM McGladrey, Inc. has a 100% membership interest
(25) Wholly owned subsidiary of Birchtree Financial Services, Inc.
(26) Wholly owned subsidiary of FERS Business Services, Inc.
(27) Wholly owned subsidiary of WS Business Services, Inc.
(28) Limited liability company in which WS Business Services, Inc. has a 100% membership interest
(29) Limited partnership in which W-1 Holdings, L.L.C. has a 1% general partnership interest and WSB-NEV, L.L.C. has a 99% limited partnership interest
(30) Limited liability company in which C.W. Amos Business Services, Inc. has a 100% membership interest

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-33655) of Block Financial Corporation and in the Registration Statements on Form S-3 (No. 333-33655-01) and Form S-8 (Nos. 33-185, 33-33889, 33-54989, 33-64147, 333-42143, 333-42736, 333-42738, 333-42740, 333-5640) of H&R Block, Inc. of our report dated June 19, 2001 relating to the financial statements of H&R Block, Inc., which appears in the 2001 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K for the year ended April 30, 2001. We also consent to the incorporation by reference of our report dated June 19, 2001 relating to the financial statement schedule, which appears in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
Kansas City, Missouri
July 30, 2001